Achieving a Lifetime of Financial Comfort

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(Well now that I wrote on this page it's no longer blank; I want all readers to trust me, so I certainly can't start with a statement that is clearly false! I don't know what to do. I've only worked on this book for five minutes and I am already having issues.)

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Dedication

I am dedicating this book to my two daughters Olivia and Julia. Their mere existence drives home the fact that achieving financial comfort is not a luxury but rather a necessity. We all owe it to our families to take great care in the decisions that we make with our wealth. The fact that you are reading this book means that you understand this concept. I also hope that Olivia and Julia will one day read this book and follow this wealth management advice so that they both can, one day, enjoy a lifetime of financial peace of mind.

Secondly, I am dedicating this book to my wife Wendy and the Aventail Wealth Management family. Aventail is a Registered Investment Advisory firm in Winter Haven Florida that I co-found with my longtime colleague Carol Shira. It's scary taking the leap of faith and going out on your own, and we could not have done it without the support of our families. In addition, I am very thankful for the ownership group who showed confidence in our abilities from day one. Furthermore, Aventail has an amazing staff that truly focuses on delivering best in class service. Finally, and most importantly, I deeply thank and have great appreciation to the clients that have chosen to select Aventail Wealth Management to be their financial advisory firm. All of the above mentioned make up the Aventail

family to which I dedicate this book. Carol and I take great pride in knowing that Aventail Wealth Management was merely a thought in our heads and today it's reality!

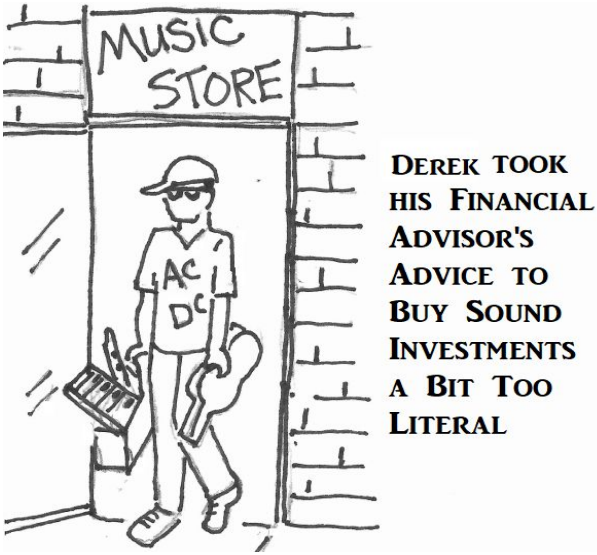
Aventail Wealth Management LLC. – Winter Haven, FL

An Aventail is a set of connected metal rings. Its unique design combines **Strength** and **Flexibility** to achieve a high level of **Protection**.

Illustrations

I could not be happier to communicate that all of the illustrations and cartoons throughout this book were drawn by my very own mother, Rebecca Ulch. Prior to retiring, my mother was an art teacher for over 30 years; she even had the honor of having me as a student a few years. My mom has painted and sketched some truly amazing pieces over the decades.

An entire book about finance could, if one were not cautious, get a tad boring. Therefore, I attempted, the best I could, to provide some other entertaining aspects. My supposedly humorous commentary probably adds little entertainment; however, I'm confident that my mother's periodic sketches will do a much better job at keeping this important topic fun and enjoyable throughout!



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Foreword

Carol L. Shira

Brian is one of the most intelligent people you will ever encounter, and the proof of this statement will be evident you once you read this book. Brian and I have been working together in the financial and estate planning field for over a decade and decided to start our own firm, Aventail Wealth Management. Aventail is a success and the primary reason is due to Brian's unique and special ability to help clients understand the very complex and technical aspects of financial planning in a way that instantly makes them feel comfortable. This leads to them having trust and faith in knowing he is always putting their best interests first.

As you read through each chapter you will see how Brian has helped many people throughout their life's journey, whether you are a first-time investor, a young married couple with a family, or planning for your retirement years. Brian has helped our clients in all phases of their life with the goal of helping them achieve a lifetime of financial comfort.

Preface

The concept of this book is to research, construct and execute an overall financial plan that is specifically designed for a family which has the highest possible probability of delivering to them a lifetime of financial peace of mind.

"For what greater wealth can there be than cheerfulness, peace of mind, and freedom from anxiety?"

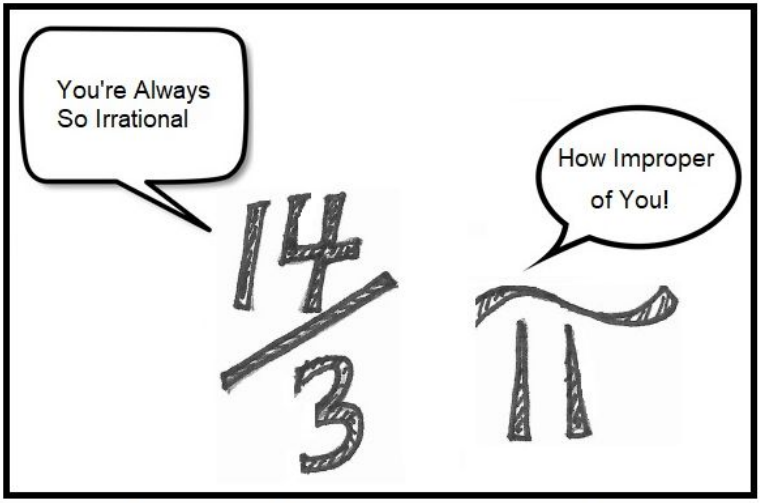
Thomas More

I have been a wealth adviser for twenty years and I am now 100% confident that I have discovered the path to this coveted financial comfort. Surprisingly, the plan does not have to be mind bogglingly complicated. Furthermore, it's not squeezing out every last drop of return. In this book, I lay out all the steps which are derived by logic, economic

concepts, mathematics and my experience. I do feel that by the time you have read through this book, you will consider this the most influential financial material you have ever read. That is a bold statement but one I truly believe to be accurate.

The moment the mathematical light bulb was turned on for me occurred in 1991. It was my sophomore year at Winter Haven High School (Central Florida area). After significant effort in working on various equations, suddenly I just got it! From that point forward the light shined brightly, and math was truly enjoyable. Mathematics for me became a fun challenge as problems were essentially riddles that I knew how to solve. It is significant to know that I enjoyed doing math. To this day, and throughout the rest of my life, I am sure that I will enjoy "running the numbers" with any decision that can be answered mathematically.

A secondary reason why this is an important fact is because throughout this book I will reference my opinions on a variety of wealth management subjects. I would like readers to know that I derive my opinions via the sound and reliable process of mathematics. Just like I seek comfort for my clients I seek peace of mind for myself and my firm. Math is a tool which provides assurances when prudent financial decisions are being made.



Mathematical Relationships Often End in Divorce

I do have one teaser however; there is a financial concept that I have found that is even more powerful than mathematics! It's so powerful I dedicate the very first chapter to share it with all of you. Thank you for taking time to read this material; I assure you that in the end you will consider it time very well spent.

Introduction

Information is power, and I want to give you that power. I seek to empower you to make informed decisions that results in the highest probability of delivering financial peace of mind to you and your family. The following chapters have been placed in a very specific order and follow a logical path to success. I strive to not only lay out the plan but also disclose the logic behind the numbers.

"In the End a Vision Without the Ability to Execute is Probably a Hallucination"

Steve Case

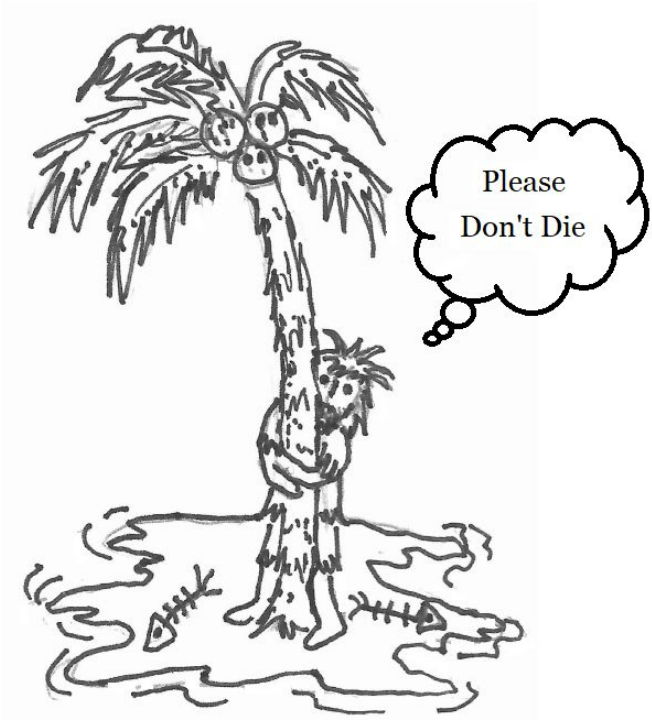
Finally, I also want to discuss the pros and the cons of every relevant investment solution. My goal throughout this book is to provide you the very best value by remaining as unbiased as possible. Therefore, without further delay let's go together on this journey of finding and maintaining a lifetime of financial comfort.

Chapter 1

Marginal Utility

It is certainly a risk to start any book with an economic lesson; nevertheless, I am willing to take that risk to introduce this concept to you because it's amazingly powerful. Marginal utility, in fact, is so influential it can switch an otherwise sub-optimal choice into the correct decision. I argue that in most cases marginal utility even trumps mathematics. That is a very bold statement and I would understand any reader who currently doubts its validity; nevertheless, by the end of this chapter I will provide proof that it's indeed 100% true. Furthermore, and most importantly, I begin this book with marginal utility as this concept is the primary driver behind all of my logic based financial advice; therefore, to fully understand this economic concept is to understand the overall guiding principles of this entire book.

Marginal utility states that the more of any item you have, the less valuable each incremental unit is to you. On the flip side the less of a resource you have, the more valuable it becomes. I can think of 1,000 examples; however, here is an easy one. If you're unfortunate enough to find yourself on a deserted island and it has only one coconut producing palm tree, you would cherish and guard that tree every moment of every day.



If the tree appeared to be even slightly struggling, you would nurture it and tend to it the best you could. Your life would literally revolve around monitoring and caring for this lone palm tree. Conversely, if the island is home to several hundred palm trees and you enjoyed a cache of thousands of coconuts, your daily island life would proceed without ever a single thought about palm tree health. Therefore, we can see the true importance of the coconut producing palm tree is inversely correlated with how many

you have access to. This, in a nutshell (pun intended) is marginal utility.

Thus far, all I have done is put a name to a logic that most people likely already understand. Let's play a financial game to see just how powerful this concept really is. Now imagine the tables of luck have drastically turned in your favor. You just won a seat on a very lucrative game show. I want you to really play along. The game is very simple. You are presented with two boxes:

You get to select one box and keep whatever is under it. The gameshow host tells you that under one of the boxes is $100,000,000; however, under the other box is absolutely nothing. Now that you know the rules, you are presented with a very important and life changing choice. You may either: 1) Play the game and choose one box, or 2) Take $5,000,000 cash to quit and go home. Which option do you choose? Please think this through before reading further and be honest with yourself.

Unless your name is Elon Musk, Bill Gates, or Warren Buffet you took the guaranteed $5,000,000 (I certainly did). Well it turns out, all of us that took the guaranteed money made a monumental mathematical mistake to the tune of negative $45,000,000:

Equity to Not Play	Less	Equity to Play		Equity Result
$5MM	-	$100MM X 50%	=	-$45MM

Despite us all knowingly making this significantly sub-optimal mathematical decision, we are all still very happy with our choice, as evidenced by the huge smiles on our faces, as we head directly to the bank. But how in the world can we make a $45MM mathematical blunder and yet still be so darn secure and pleased with our decision? The answer is, of course, marginal utility.

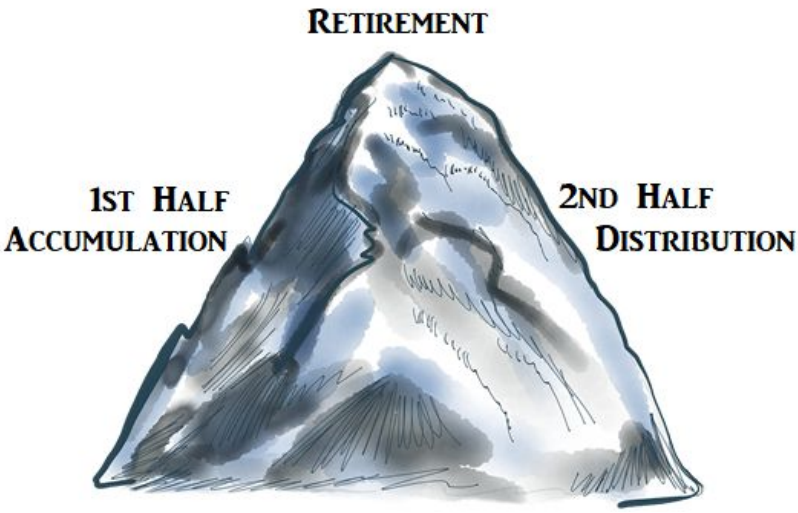
The game show is obviously an extreme fictional example; nevertheless, this concept, on a much smaller scale, is the essence of the plans that I help families establish. At times, we will knowingly pass on the highest internal rate of return (IRR) options if doing so leads us to guaranteed returns. The good news is that in our plans we might be leaving 1% annual return on the table (not $45MM thank goodness). Marginal utility tells us that despite the math error, we still ended up making the correct financial plan decision!

If you are someone that only analyzes the pure IRR exclusively, with the goal of squeezing out every last drop of return, then this book probably isn't for you. Conversely, if you see the logic in sometimes forgoing the absolute highest IRR, in exchange for guaranteed results that delivers peace of mind, then you're in the right place! Throughout this book you will find that I advocate a blend of some high IRR solutions, along with a significant dose of guaranteed solutions. As you analyze your family's unique financial situation, I urge you to keep the concept of marginal utility in mind. We just proved that it can, and often does, surpass mathematics. Armed with this new powerful concept let's proceed on our quest to construct and execute an overall plan that delivers a lifetime of financial serenity and sustainability!

Chapter 2

Investments Accumulation Phase

Investing has two very clear and very different phases that are separated by retirement. One of our business partner's, USA Financial, created this wonderful visual to illustrate this:



As the illustration shows, your investing life does not end at retirement, rather it's only at its halfway point. This chapter provides tips and advice to folks that are still in the first half of this journey. Even if you are already in

retirement, I am confident you will find this chapter valuable. Furthermore, if you have children, or grandchildren, be sure to provide them with this book and suggest they read the first two chapters.

For those of us still climbing the mountain (working), we are in asset accumulation mode. With discipline, all of us can retire with a seven-figure portfolio! Furthermore, this comfortable retirement can be achieved without the need of taking huge risks, nor does it require us to neglect family and friends. In my experience and observations, there are two distinctly different employment paths. Some folks, myself included, might elect to go down both paths at some point during their career. The first path to a seven-figure retirement I call the "Dedicated Employee".

First:
Dedicated
Employee

Dedicated Employee

As its name suggests, this path is working as an employee for another. Often the employee is part of a very large and well-known company. As with everything in life, there are pros and cons associated with this path:

Cons:

- Financial Rewards Will be Capped
- Others Telling You How to Do Your Job
- Don't Necessarily Control Your Own Destiny

Pros:

- More Conservative Route
- Away from the Office is Truly Your Time
- Gain Experience
- Retirement Programs - 401K or 403B

While it is most certainly true that if you work for a large company your take home pay will be capped, this path is still attractive to many folks. The name recognition of the company you work for will lead to new business and opportunities that otherwise would be unachievable. Also, time away from a large company is often truly your time (some roles like surgeons are exceptions). The greatest benefit of being a dedicated employee is that this route is the less risky of the two paths.

One of the vehicles we are going to use to achieve the seven-figure retirement, following the dedicated employee path, is the 401K program (403b for nonprofit organizations). I cannot overemphasis enough the power of pre-tax investing. You will be earning returns and interest off dollars that otherwise would have went to Uncle Sam. Sometimes we will delay taxation on these dollars for 20, 30 or even 40 years! The power of this advantage is enormous. Okay, recall that I love running the numbers for you so here goes:

See Illustration on the Next Page

30 Years Old | Contributions 8%
Salary $37,000 | Match 4%
Raises 4% | Est. Annual Return 6%

Period	Salary	Contr	Match	401K MV
Year 1	$37,000	$2,960	$1,480	$4,706
Year 2	$38,480	$3,078	$1,539	$9,883
Year 3	$40,019	$3,202	$1,601	$15,567
Year 4	$41,620	$3,330	$1,665	$21,795
Year 5	$43,285	$3,463	$1,731	$28,608
Year 6	$45,016	$3,601	$1,801	$36,051
Year 7	$46,817	$3,745	$1,873	$44,169
Year 8	$48,689	$3,895	$1,948	$53,013
Year 9	$50,637	$4,051	$2,025	$62,634
Year 10	$52,663	$4,213	$2,107	$73,091
Year 11	$54,769	$4,382	$2,191	$84,443
Year 12	$56,960	$4,557	$2,278	$96,755
Year 13	$59,238	$4,739	$2,370	$110,096
Year 14	$61,608	$4,929	$2,464	$124,538
Year 15	$64,072	$5,126	$2,563	$140,160
Year 16	$66,635	$5,331	$2,665	$157,046
Year 17	$69,300	$5,544	$2,772	$175,283
Year 18	$72,072	$5,766	$2,883	$194,968
Year 19	$74,955	$5,996	$2,998	$216,200
Year 20	$77,953	$6,236	$3,118	$239,088
Year 21	$81,072	$6,486	$3,243	$263,746
Year 22	$84,314	$6,745	$3,373	$290,295
Year 23	$87,687	$7,015	$3,507	$318,867
Year 24	$91,194	$7,296	$3,648	$349,599
Year 25	$94,842	$7,587	$3,794	$382,638
Year 26	$98,636	$7,891	$3,945	$418,143
Year 27	$102,581	$8,207	$4,103	$456,280
Year 28	$106,685	$8,535	$4,267	$497,227
Year 29	$110,952	$8,876	$4,438	$541,174
Year 30	$115,390	$9,231	$4,616	$588,322
Year 31	$120,006	$9,600	$4,800	$638,886
Year 32	$124,806	$9,984	$4,992	$693,095
Year 33	$129,798	$10,384	$5,192	$751,191
Year 34	$134,990	$10,799	$5,400	$813,433
Year 35	$140,390	$11,231	$5,616	$880,096
Year 36	$146,005	$11,680	$5,840	$951,474
Year 37	$151,846	$12,148	$6,074	$1,027,877

MV at Retire = $1,027,877

Important Disclosures: Salary increases and investment results are not guaranteed, 6% return is assumed to be net of fees, Annual returns on the charts provided were randomly created for illustration purposes and do not reflect actual past results, client's asset allocations or the firm's investment models. Please see page 149 for full list of disclosures.

Please notice that I didn't use any unrealistic figures. The only percentage that could be a stretch for some young investors is the 8% 401K contribution rate. My advice is if you find that you can't quite achieve a withholding rate of 8%, then increase your percentage the next time you get a raise. I have found that folks that have the amount withheld before it winds up in their bank account find a way to get by without it. All of us, myself included, find that once the funds are in our checking account, we find a way to spend it. After all that is the American way!

The one warning I can provide investors going this route is to stay the course. Notice that in our example that after five years, the fictitious employee's 401K balance is only at a market value of $28,608. It could be tempting to feel at this point that the program is not working. I hope this data provides you comfort knowing that indeed the plan is working, it just takes a bit longer to really gain significant momentum. Therefore, as you can see, even if one elects to take the less risky career route, a seven-figure retirement is still very attainable!

Second: Bold Entrepreneur

The second path to a seven-figure retirement I call the "Bold Entrepreneur". As its name implies, this path is the most attractive to individuals who want to own their own firm (often a small business). This route has its own set of pros and cons as well:

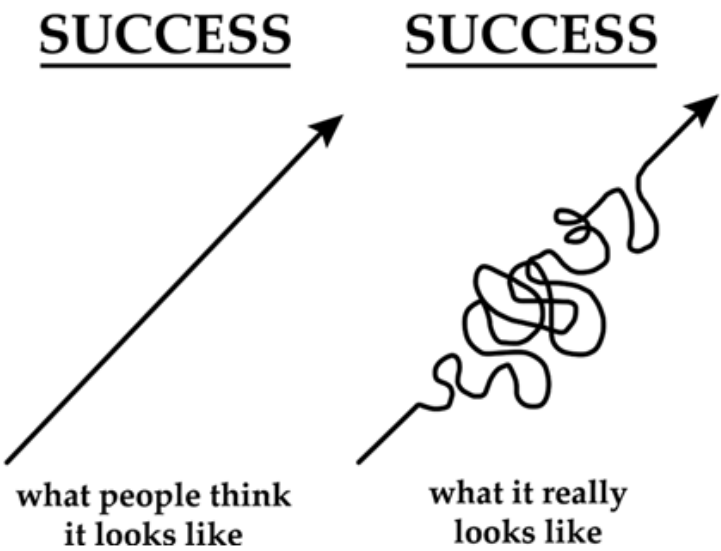
Cons:

- Much Riskier Option
- More Stressful in Early Years
- Never Away from the Office

Pros:

- More Financially Rewarding Long-term
- You Call the Shots
- Take Care of Clients Exactly How You See Fit
- Always Putting Their Best Interest First

Being a business owner, you will never truly be "away from the office". If you're enjoying a nice vacation and some major business issue arises, you will certainly be the one cutting your vacation short to fix the problem. The biggest hurdle to overcome is the fact that going the entrepreneurial route is certainly the riskier choice; after all, you could lose money taking this career path. Nevertheless, if you run a successful firm, the financial rewards that will come your way over time is tremendous.



The path to a seven-figure retirement with this path is twofold. First and foremost, a majority of your excess funds will likely be reinvested into your business. This reinvestment will either provide you even greater returns in

the future or will allow you to maintain the same financial rewards with less effort.

The investment vehicle that most business owners will seek to utilize is the Simplified Employee Pension Individual Retirement Arrangement (SEP IRA). Whether you elect to use the Traditional IRA, or the SEP IRA, comes down to contribution limits. If you're early in your business ownership and don't require higher limits, the Traditional IRA will work just fine for you. The firm you own might offer its own 401K program, and that is also a fine vehicle to utilize. However, if you choose that route be sure to always elect the "Safe Harbor" options. This basically means that you are not treating yourself to any benefits, or match percentages, that aren't available to all your employees. Getting into the many details of 401K regulations is way beyond the scope of this book. If you are currently at that stage, seek out an attorney that specializes in ERISA law.

One Major Commonality

We have seen both paths are quite different. However, I want to point out one aspect that they both possess. To have the highest probability of success, you must view both paths as a marathon. I know from experience that there will be times in which you feel the plan isn't

working fast enough. Just keep putting one foot in front of the other and you will get there!

Two Other Important Subjects

Regarding younger investors, there are two other subjects that I would be committing malpractice not to discuss. The first, is that there is a way for you to earn a guaranteed return. Sometimes this return can be over 10%! I know my partner, Carol Shira, who is also the firm's Chief Compliance Officer, her head is about to explode by me guaranteeing results. However, it's absolutely true! How you go about investing for guaranteed results is paying off debt.

Let's assume you have a credit card that has 15% interest. You really should dedicate a great majority, if not all, of your extra funds to paying this debt off. The way I look at it you are guaranteeing yourself a 15% return by doing so.

Trust me there are not any investments that can guarantee even half that type of return.

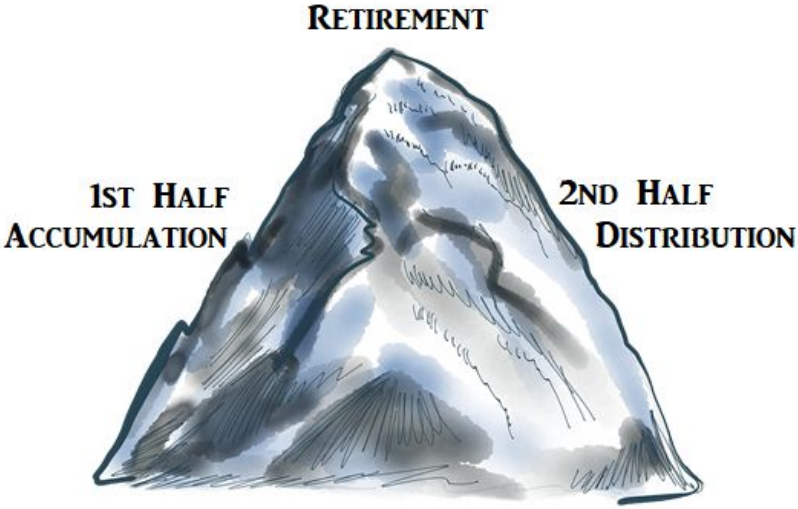
After taking advantage of everything that we have discussed previously, let's assume that you are fortunate enough to still have some excess funds. In this case you should consider setting up a Roth IRA. The longer your investment horizon, the greater value a Roth IRA will deliver to you. The reason for this is that assets in a Roth IRA grow tax free. You won't pay tax on interest, dividends, not even capital gains! There are some restrictions to this type of an account, so set up a meeting with your trusted financial adviser to discuss if a Roth IRA is right for your situation.

In conclusion, there are two paths to a seven-figure retirement. Try to contribute at least 8% of your wages to your 401K account. If you are currently under that target, try and bump up the percentage of your contributions at first opportunity. As an entrepreneur, I know success will likely not come easy. Eliminating any unnecessary debt is possibly the best investment you can make. Finally, you may think that since you are young you have less to invest, and that is a distinct disadvantage; I'm here to tell you that nothing could be farther from the truth. You enjoy the greatest ally any investor can have, a long investment horizon! Above all else, keep in mind this is a marathon, stay the course and you will have a successful finish in the end.

Chapter 3

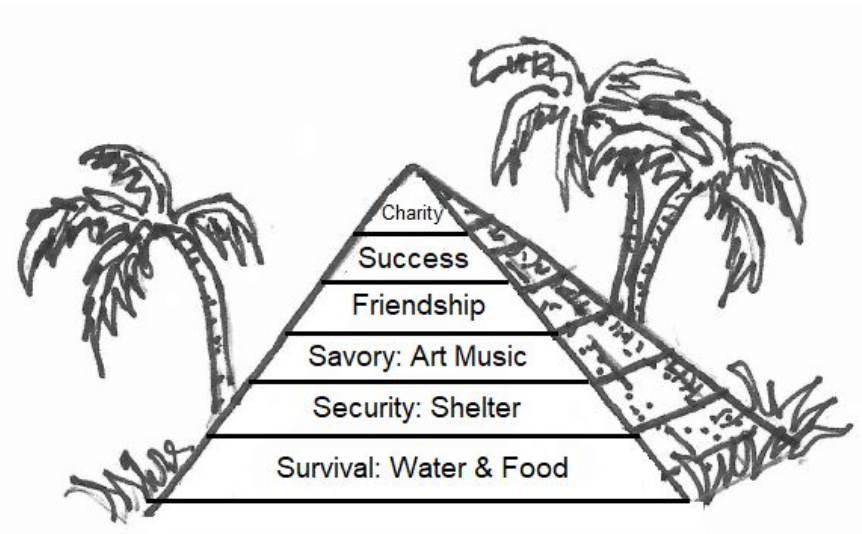
Investments Distribution Phase

Recall, that once you reach retirement, your investment journey is only half over. Descending a mountain requires different skills than climbing a mountain. Similarly, investment techniques change once we hit retirement age. The first half of the process we focused on accumulating assets. During the second phase we change our focus and require our assets to benefit us during retirement. The next several chapters analyses strategies that I have found to be successful at navigating the second half of our investment lives, which is the distribution phase.



Hierarchy Pyramid

The remaining recommendations throughout this book focuses on techniques, solutions, and processes that provide you the highest probability of enjoying a successful retirement. As you can imagine, there are several aspects we need to put in place. A pyramid is a great visual to communicate the overall plan of this second phase. I got the idea for this visual from recalling back in grade school being taught the "Hierarchy Life Pyramid" which looks like this:



You will likely recall this life pyramid as well; the way we read the pyramid is from base to top. We see that humans typically don't go up to the next level without first securing the lower level. For instance, let's momentarily return to the deserted island. Moments after you arrive in this precarious

situation, the life pyramid correctly shows that prior to achieving any other goals, you will first seek a water and food source. Next you will likely build some shelter. Only after those necessities are met, would you start moving further up the pyramid, and start seeking other more luxurious aspects of life. Essentially, nearly every logical thinking human will climb the pyramid from bottom to top.

I will borrow this pyramid visual and use it for our worthy goal of finding and maintaining a lifetime of financial comfort. My experience strongly suggests the pyramid should closely resemble the following:

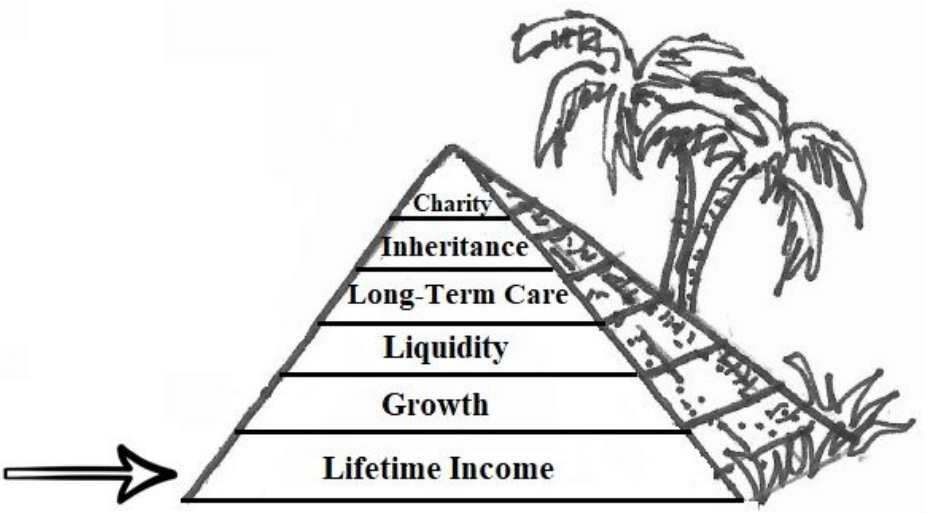
Notice that I did not use pieces of a puzzle as my visual. This pyramid is a much better symbol because the base is wider, and correctly provides greater contributions to the overall structure. Therefore, we will likely be contributing more “resources” to achieve a solid base. Also,

similar to the life pyramid, we often seek to fulfill lower tiers of the financial comfort pyramid prior to moving up a level.

We will walk through every one of these levels of the pyramid in the next few chapters. Also, I will provide you solutions to each level. Many of you won't have all the levels of the pyramid in place. Don't worry, it takes years, sometimes decades, of effort and discipline to have all the pieces of the pyramid in place. After reading this book you will, at the very least, have a road map which will show you how to get there!

Chapter 4

Level 1 - Lifetime Income



The crucial foundation of our overall financial plan is income for life. Having your assets provide an income that covers all your necessary cash outflows is, by far, the greatest contributor to finding perpetual financial comfort. Regarding income I strongly recommend three important aspects: 1) The income must be guaranteed for life, 2) The income amount must be known from the outset, and 3) The plan should show the income increasing over time.

First, it is vitally important for the income to be a lifetime payout to hedge against longevity risk. I am so concerned about longevity risk, that I dedicate an entire

chapter to it (See Chapter 10). Obviously, the longer you live, the more value you extract from a security that pays income for life. This extra value extraction is needed to hedge against the financial risk of a long life. Recall our lesson from marginal utility, where we spoke about the possibility of giving up some internal rate of return (IRR)? This is a perfect example, giving up some expected IRR in exchange for a lifetime income stream is often prudent in reaching our overall goal; as such, I recommend to all my clients to take this tradeoff.

Second, it is also important for the income to be known from the outset even if the income is not turned on immediately. The growth portion of our investments will be a variable and that is ok. The income portion of our solution will be known from the outset. Knowing, with a high level of certainty, both the inflows and outflows of cash is vitally important.

Third, with 100% confidence we can predict that the costs of goods and services will rise over time. Therefore, it only makes logical sense that we must demand the same from our lifetime income. The plans I set up typically show an average increase in income production of about 3% annually. That should offset most, if not all, of the inflation; however, if inflation ramps up higher than anticipated in the future, our plan should be able to adjust and increase cash inflow even higher to fully offset.

Everyone knows financial markets and plans experience cycles of ups and downs. Quick question: Throughout the history of time, what has proven to be the prudent way to handle the downswings? The correct answer is to stay invested. History shows us that it's prudent to stay the course and allow time to swing the pendulum back toward positive times. Staying the course is much easier if you do not panic.

"When You Sell in Desperation, You Always Sell Cheap"

Peter Lynch

I'm sure some of you have figured out where I am going with this. How is the best way to not panic the next time your portfolio, that has grown over its lifetime, goes down by 12%? The answer is: you focus on the fact that in your retirement years you are only spending $45,000 a year, and your guaranteed annual income is $48,000. This is where true comfort comes from and why getting your guaranteed income correct is the base of the comfort

pyramid. You have heard the saying “Cash is King”; I add one word and come up with the most powerful statement that I can make “Cash Flow is King”!

Lifetime Income Solutions

Fortunately, the United States government forced us all to pay in toward a lifetime annuity throughout our lives. This program called Social Security is the primary driver of guaranteed income for most individuals. I urge my clients to think of social security as a huge asset that you have worked hard for and paid handsomely to own. Many of my married clients enjoy a combined benefit of $40,000 a year from social security alone. If we think about how large an asset would have to be to create an equivalent cash flow, the size is staggering; I estimate to replicate the benefit would require an investment of approximately $1,000,000. Therefore, everyone should walk through a social security optimization process. If you are under the age of 70, and your current adviser has not dedicated time to walk you through a social security optimization process, it’s time to get a new adviser!

Analyzing how you can structure your social security to enjoy maximum benefits is one of the first steps I take my clients through. It is quite common for married couples to see their lifetime benefit increase $50,000 - $75,000. Given the great importance of this asset, isn’t it worth at least one

hour of your time to sit down and see how the numbers look for you and your spouse?

For most retirees, social security alone does not cover living expenses. Often, I recommend covering this shortfall by putting in place a fixed indexed annuity (FIA). There are thousands of FIAs to choose from. All interested in this solution should seek guidance to put one of these in place. Some FIAs are great and provide immense value; however, there are many FIAs that have pitfalls which result in them performing well below average. An experienced adviser can guide you to the correct solution for your unique situation.

"The Most Important Word in the World of Money is Cash Flow"

Robert Kiyosaki

FIAs typically credit your account dependent on an underlying index. However, your assets are not in the market; therefore, the markets will never make your account go down. Also, most have what is called a "benefits account" that enjoys a boost such as a guaranteed return.

WARNING: Often the benefit account is only used for calculating your lifetime income or death benefit.

Another significant benefit that FIAs possess is that even if you completely exhaust your entire account, the monthly payment checks will continue to be made throughout your lifetime. This benefit establishes a hedge against longevity risk and we want these type solutions in your overall plan.

For clients that either prefer to avoid annuities or would feel more comfortable with a third source of guaranteed income, we seek to put bonds in place. Bonds can be very tricky and fickle. Inexperienced investors can actually lose significant dollars investing in bonds. I have two general rules that will help you avoid the pitfalls. First, only buy bonds with a rating of A or higher. My position is that bond assets are supposed to be safe; therefore, I have never understood investors who will invest in junk bonds. Please don't get sucked into buying a bond because the interest rate is so high. There is a reason that rate is so darn high, because the risk is as well. Secondly, purchase individual bonds. Bond funds can lose Net Asset Value (NAV), and sometimes the investor never regains the lost principal. NAV loss is particularly troublesome in a rising interest rate environment. To avoid this interest rate risk, build a ladder solution using only individual bonds.

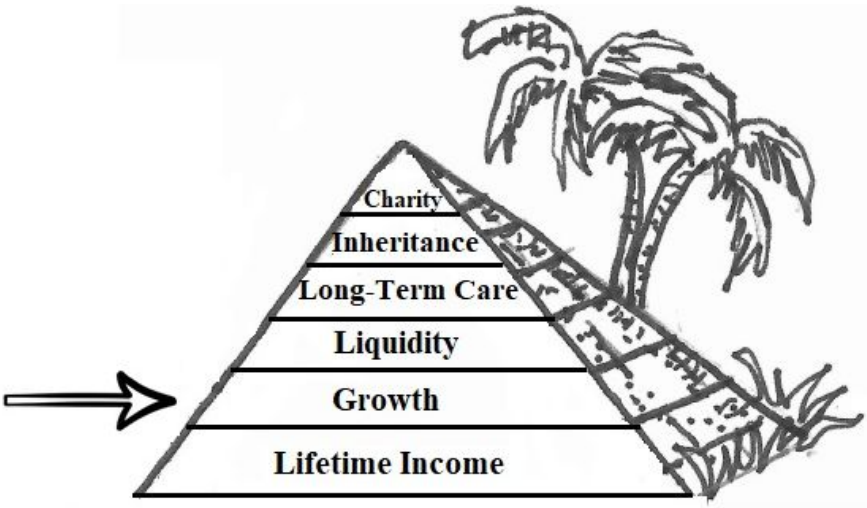
When going the bond route be sure to not overlook municipal bonds. Quite often you will see that the interest

munis pay is very similar to taxable bonds of equal credit worthiness. Having a portion of your annual income exempt from taxes can prove very powerful over a 30-year retirement.

In conclusion, the base of our plan is to create a retirement in which you enjoy a net positive cash flow each month. Social Security is a great asset and we should plan to optimize this important lifetime income. However, for most individuals, social security alone is not enough to cover cash outflows. In this situation, we put in place fixed income annuities. With FIAs, proceed cautiously because most are not as attractive as the fancy marketing materials suggest. However, there are some great FIAs available that deliver amazing lifetime cash flow. An individual bond ladder can further boost your annual income. Income solutions should be put in place with the guidance of a financial adviser as many possess hidden pitfalls. However, once this aspect of your retirement is established you are well on your way to achieving a lifetime of financial comfort.

Chapter 5

Level 2 – Growth



Once cash inflows meet or exceed expenditures, the next level in our financial plan focuses on growth. Most people realize that inflation eats away at the buying power of assets over time. Just ask someone over 60 how much a gallon of milk was when they were a kid. Now compare the answer they give you with today's prices and notice that the difference is outstanding. Keep in mind this steady rise in price occurred even though farmers have gotten way more efficient at producing the product over the years. Inflation is a threat; in fact, it is another longevity risk and we hedge this risk with growth assets.

"Inflation is as Violent as a Mugger, as Frightening as an Armed Robber and as Deadly as a Hit Man"

Ronald Reagan

A secondary benefit is that often growth assets enjoy a lack of performance correlation with the first level of income. The more assets you can own, that will act differently during varying times in the economy, the better. In fact, once the pyramid is completely established, part of the reason it works so well is because each level preforms differently during various market cycles.

I have found that almost everyone already has the growth level of the pyramid in place. In fact, I often find myself reallocating assets out of this level and into other areas of the overall plan. Although most everyone has this level established, I rarely see it done 100% correctly.

To fulfill the growth aspect of the pyramid, a truly diversified managed security account is a wise choice. I define a truly diverse portfolio as one that runs very near to its highest efficiency level. I have been building portfolios my entire 20-year career and I have never seen a truly efficient portfolio built by someone else. This fact is certainly not because I am some genius, or that I am better than others. It really comes down to the fact that most people don't know the mathematics behind testing a portfolio for efficiency. Two calculations assist me in testing whether a portfolio is as efficient as it can be: the Sharpe Ratio and the Sortino Ratio. I truly would have no idea, without these metrics, how one could accurately evaluate the overall strength of a portfolio.

*In finance, the **Sharpe ratio** (also known as the Sharpe index) is a way to examine the performance of an investment by adjusting for its risk. The ratio measures the excess return, or risk premium, per unit of deviation in an investment asset or a trading strategy, typically referred to as risk (and is a deviation risk measure), named after William F. Sharpe.*

*The **Sortino ratio** was created in 1983 by Brian M. Rom at the software development company Investment Technologies. The ratio is named for Frank A. Sortino, an early popularizer of downside risk optimization. It measures the risk-adjusted return of an investment asset, portfolio, or strategy. It is a modification of the*

Sharpe ratio but penalizes only those returns falling below a user-specified target or required rate of return, while the Sharpe ratio penalizes both upside and downside volatility equally.

Source: Wikipedia

As these definitions suggest, strong performance is not a function of appreciation and income alone. Generating a solid total return, while simultaneously exposing the portfolio to the least amount of volatility to generate that return is the true key to a successful growth portfolio.

Building actively managed portfolios has been my primary role from day one, and here 20 years later it is still at the core of what I do. There are a few cornerstones to my security selection process that still guide me to this day. Regarding growth equities the strongest advice I can share with you is a word that is more correlated with profitability than any other. That ever so powerful word is scalability. A firm that is scalable can bring on additional clients with little additional costs. Companies that possess this coveted "economies of scale" enjoy profit leverage. A review of Aventail Wealth Management's top 10 equity holdings reveals many names that enjoy high levels of scalability:

Top 10 Holdings

Amazon	Visa
Google	Microsoft
Facebook	Sysco Foods
Coca Cola Company	Johnson & Johnson
Global Robotics	Intel

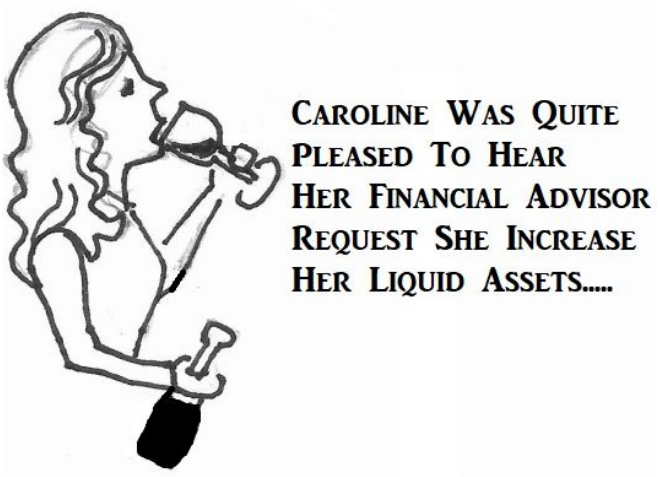
Aventail
Wealth Management

In conclusion, having a growth component to work in tandem with the income accounts is crucial to a sound overall investment plan. If we seek names that enjoy scalability, the odds shift in our favor. Maximizing return while mitigating volatility is the key to a truly efficient growth portfolio.

Chapter 6

Level 3 – Liquidity

One can't possibly achieve financial comfort without access to invested assets in relatively short order (one week or less). However, I strongly feel there is a right way and a wrong way to hold a liquidity position. First, I will explain the way that most people hold a liquidity position, which also happens to be the incorrect way.



Many folks establish a figure that they feel comfortable holding in liquidity. I would estimate that, on average, my clients settle on $50,000. The cash might be held in a variety of places such as checking, savings and safety deposit boxes. I feel it is very fair to say that $50,000

would earn at least 3% annually if invested. Therefore, math can quickly tell us over a lifetime how much this strategy "costs" the investor.

Years	3% Growth
1	$50,000
5	$56,275
10	$65,239
15	$75,629
20	$87,675
25	$101,640
30	$117,828

Important Disclosures: Increases are not guaranteed, 3% return is assumed to be net of fees, Annual returns on the chart provided were randomly created for illustration purposes and do not reflect actual past results, client's asset allocations or the firm's investment models. Please see page 149 for full list of disclosures.

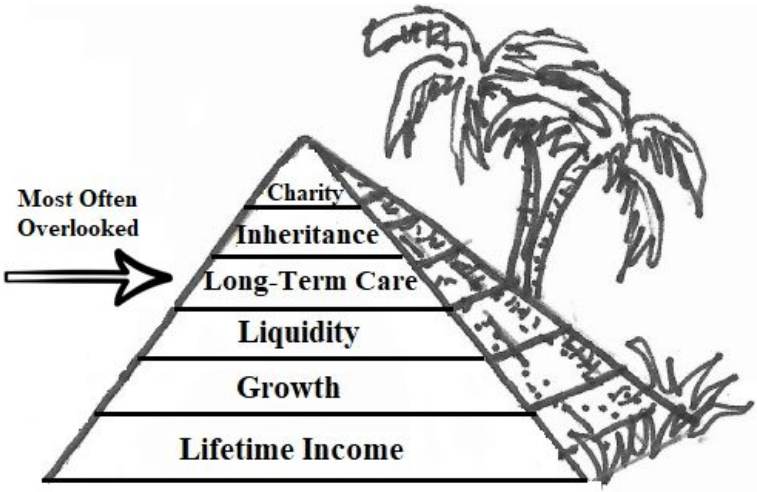
The chart shows us that to keep this liquidity over a 30-year retirement will cost an investor no less than $67,828. I don't know of any client that is willing to forgo nearly $70K for basically nothing in return. Holding more liquidity than one really needs increases longevity risk which is such a concern of mine, I dedicated an entire future chapter to the subject.

A superior option is to recognize that the security solutions we have already recommended for the first two levels of the pyramid enjoy liquidity. Nearly all index annuity contracts have a free withdraw percentage, in my experience most offer 10% annually. Also, the bond ladder that we discussed earlier is virtually completely liquid. Furthermore, regarding the diversified managed stock portfolio that makes up the growth part of our plan is 100% liquid. Therefore, if you have $100,000 invested in index annuities, and $100,000 in bonds, and $75,000 in stocks, then you essentially have $185,000 in liquidity. This is by far more liquidity than anyone needs.

Essentially, tier 3 (liquidity) of the plan is accomplished automatically if we select appropriate solutions for the first two level of the financial pyramid. Given this information, let's all bring that checking account down to $5,000 or so. The additional $45,000 can work harder for you and should be used to better round out other tiers of our overall plan. One area that you might reallocate excess liquidity in is long-term care coverage. The next chapter goes into details about how to hedge against this risk that destroys otherwise solid financial plans.

Chapter 7

Level 4 – Long-term Care



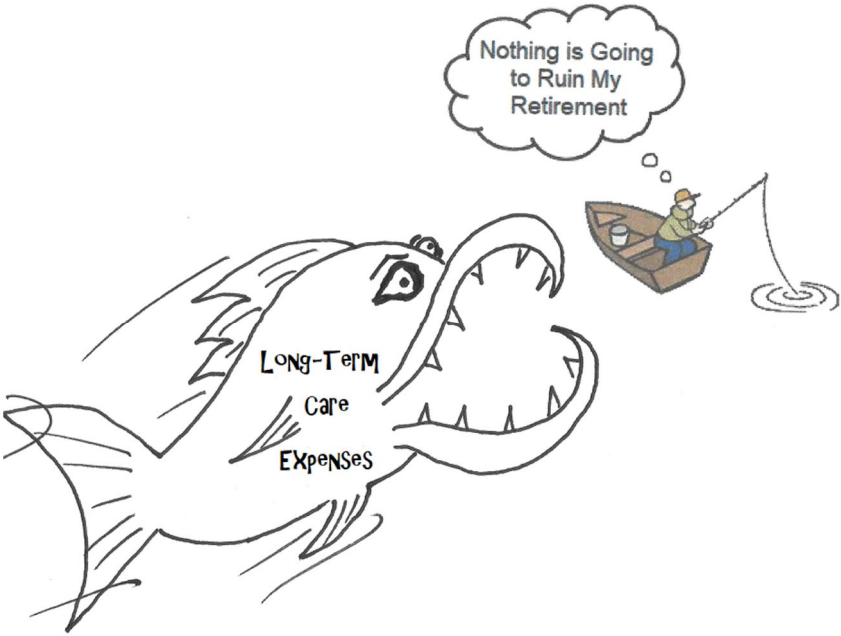
I have been a wealth manager for twenty years, and over that period, I have been asked numerous times what is the greatest threat to one's wealth? Many people expect me to say some geo-political event such as a nuclear war; others might figure a decade's long downturn in domestic GDP. While those are both great guesses and would be high on my list, neither are my top answer. The risk that I truly feel has the greatest overall potential to wipeout a lifetime of hard-earned wealth is expenditures associated with long-term care. Advances in medicine and technology are allowing us

all to live longer. This fact greatly increases the number of years we will all be paying to have professional help accomplishing activities of daily living (ADLs). The solution I recommend to put in place to hedge against this risk will cover ADL assistance in a nursing home or even care in one's own home.

"Getting Old Ain't For the Faint of Heart"

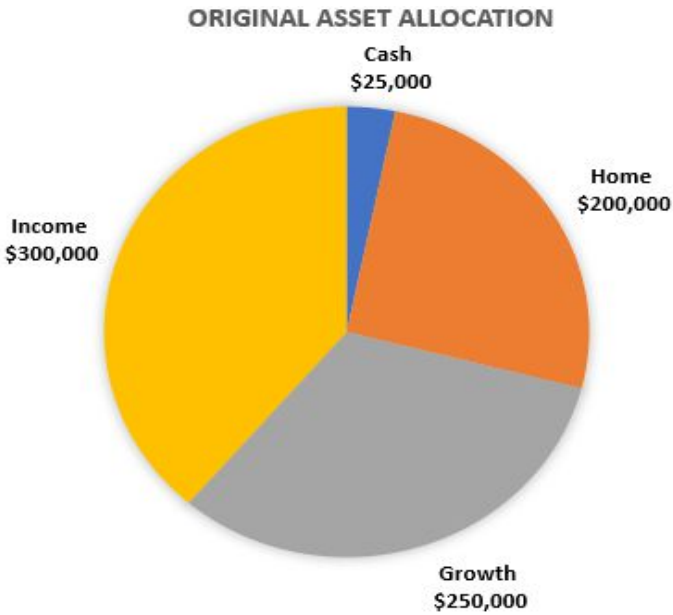
Anthony Hopkins

Long-term care expenditures are not covered by regular health insurance nor Medicare. Furthermore, what makes this risk the true killer of financial plans is the staggering costs associated with it. In my area of Central Florida, annual long-term care is rapidly approaching $100,000 a year, and these costs are only going to steadily increase over time. The greatest financial plan can be wiped out in a handful of years if we don't hedge against this real risk.



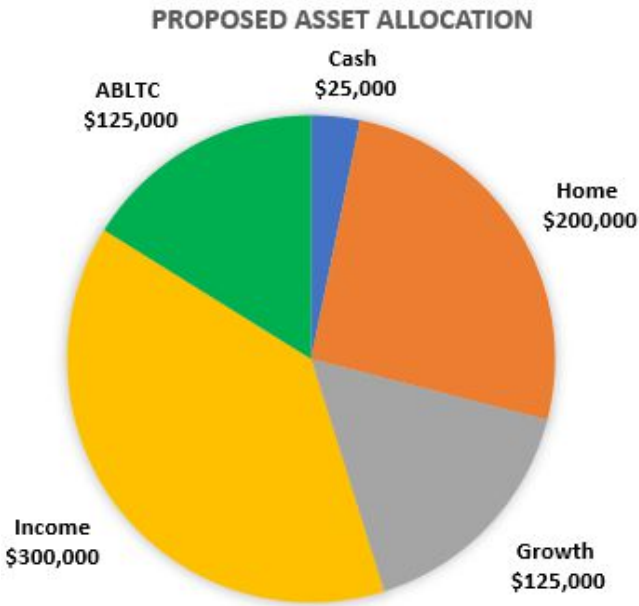
Currently, the solution I have been turning to for my clients to hedge against this risk is Asset Based Long-term Care (ABLTC). If I were writing this book a decade ago, I would likely be recommending stand-alone long-term care insurance to hedge this risk. However, a great majority of the carriers of stand-alone LTC insurance have pulled out of this area. For policies that do remain, the monthly costs are at, or very near, all-time highs. Why have the number of carriers dropped so dramatically? It's because the insurance providers now realize just how many people were needing the benefits, and just how pricey those benefit payouts are! These facts should add more evidence as to the critical nature of this aspect of longevity risk, and why we must hedge against it.

Let's use a fictional family to illustrate the prodigious power of ABLTC. John and Jane Doe are both retired at 62 years old and have a net worth of approximately $775,000. If each of them requires just four to five years of long-term care, their entire nest egg would be wiped out. Their current overall allocation of assets are as follows:



After John and Jane sit with me, I strongly recommend that they reallocate their assets. Specifically, I recommend that half of their growth assets be reallocated into an ABLTC solution. I urge my clients to not think of this solution as an expense. Rather it is a repositioning of assets.

After we put Asset Based Long-term Care coverage in place, their new allocation looks like this:



Notice that we only repositioned half of what was invested in growth assets into Asset Based LTC. This is extremely wise; allow me to analyze the math to show you why. First, to be able to do some analysis and calculations, we need to pull a hypothetical quote.

John and Jane Doe are in good health. The following is a quote that I pulled using their fictitious data in October of 2019. Please note this quote will vary greatly by the time you read this book. The sole purpose of disclosing the quote

results is so that we can all achieve a deeper and better understanding of the solution:

Premium:	$125,000
Death Benefit:	$128,000
Coverage Period:	Lifetime
Annual Benefit Increase:	3%
3% Inc While in Benefit:	Yes
Nursing Home Care:	Yes
Home Health Care:	Yes
Simultaneous Benefit:	Yes
Monthly Benefit Table:	See Below

Policy Yr End	Monthly Benefit	Annual Benefit	Joint
1	$3,788.00	$45,456.00	$90,912.00
2	$3,901.64	$46,819.68	$93,639.36
3	$4,018.69	$48,224.27	$96,448.54
4	$4,139.25	$49,671.00	$99,342.00
5	$4,263.43	$51,161.13	$102,322.26
6	$4,391.33	$52,695.96	$105,391.92
7	$4,523.07	$54,276.84	$108,553.68
8	$4,658.76	$55,905.15	$111,810.29
9	$4,798.53	$57,582.30	$115,164.60
10	$4,942.48	$59,309.77	$118,619.54
20	$6,623.96	$79,487.50	$158,975.00
25	$7,879.35	$94,552.20	$189,104.40
30	$8,969.25	$107,631.00	$215,262.00
35	$9,858.77	$118,305.24	$236,610.48
40	$11,586.57	$139,038.84	$278,077.68

Important Disclosures: Source One America, Fictitious example for illustration purposes only. Early withdraw penalties may apply. 90 Day waiting period required before benefits begin, please see page 149 for full list of disclosures.

If this couple reallocates their assets to ABLTC and they never have any long-term care expenses (the probability of which is low), then these assets virtually don't grow at all; however, at least their heirs get $128K back. Nevertheless, it is much more likely that long-term care will be required, in that case, a huge benefit is enjoyed. Let's make a very reasonable assumption that 20 years down the road both John and Jane will require 5 years of coverage. I realize they both won't begin benefit at the exact same time; however, for ease in analysis we will assume that they do. This ABLTC solution covers both insured. Each insured will enjoy full coverage regardless of whether the other is on benefit or not. Furthermore, even on benefit the 3% increases continue. Therefore, given our assumption here is the total benefit enjoyed by both:

Example Both Need 5 Years of Coverage in 20yrs
$158,975.00
$163,744.25
$168,656.58
$173,716.27
$178,927.76
$844,019.87

We can see that reallocating $125K of their assets to hedge against long-term care has resulted in $844K in coverage (again assuming 5 years of need for both).

The ABLTC insurance has protected $719,020 worth of assets that it would otherwise not of protected. We must subtract out the initial $125K investment.

Now we can dive a bit further to really see if this investment is wise or not. Obviously, the Doe's could simply leave the $125K in the growth assets; however, let's analyze just how well that portion of their assets would have to perform to break even. In other words, what would the annual internal rate of return (IRR) have to be from their growth assets to cover an equal amount of expenses covered by the ABLTC insurance from our example? Excel can easily assist us in this computation:

See ABLTC analysis on the Next Page

	Begin Amount	Annual % Growth	Growth $ Return	LTC Expenses	Ending Acct Value
Year 1	$125,000	8.6%	$10,750.0		$135,750
Year 2	$135,750	8.6%	$11,674.5		$147,425
Year 3	$147,425	8.6%	$12,678.5		$160,103
Year 4	$160,103	8.6%	$13,768.9		$173,872
Year 5	$173,872	8.6%	$14,953.0		$188,825
Year 6	$188,825	8.6%	$16,238.9		$205,064
Year 7	$205,064	8.6%	$17,635.5		$222,699
Year 8	$222,699	8.6%	$19,152.1		$241,851
Year 9	$241,851	8.6%	$20,799.2		$262,651
Year 10	$262,651	8.6%	$22,588.0		$285,239
Year 11	$285,239	8.6%	$24,530.5		$309,769
Year 12	$309,769	8.6%	$26,640.1		$336,409
Year 13	$336,409	8.6%	$28,931.2		$365,340
Year 14	$365,340	8.6%	$31,419.3		$396,760
Year 15	$396,760	8.6%	$34,121.3		$430,881
Year 16	$430,881	8.6%	$37,055.8		$467,937
Year 17	$467,937	8.6%	$40,242.6		$508,179
Year 18	$508,179	8.6%	$43,703.4		$551,883
Year 19	$551,883	8.6%	$47,461.9		$599,345
Year 20	$599,345	8.6%	$51,543.6		$650,888
Year 21	$650,888	8.6%	$55,976.4	-$158,975	$547,890
Year 22	$547,890	8.6%	$47,118.5	-$163,744	$431,264
Year 23	$431,264	8.6%	$37,088.7	-$168,656	$299,697
Year 24	$299,697	8.6%	$25,773.9	-$173,716	$151,755
Year 25	$151,755	8.6%	$13,050.9	-$178,927	$0

The growth account would have to enjoy an 8.6% average annual return every single year for 25 straight years to break even! Keep in mind the solution I put in place for

clients pays a benefit for lifetime; therefore, if either of the insured required more than 5 years of care, then these already amazing figures would go even higher.

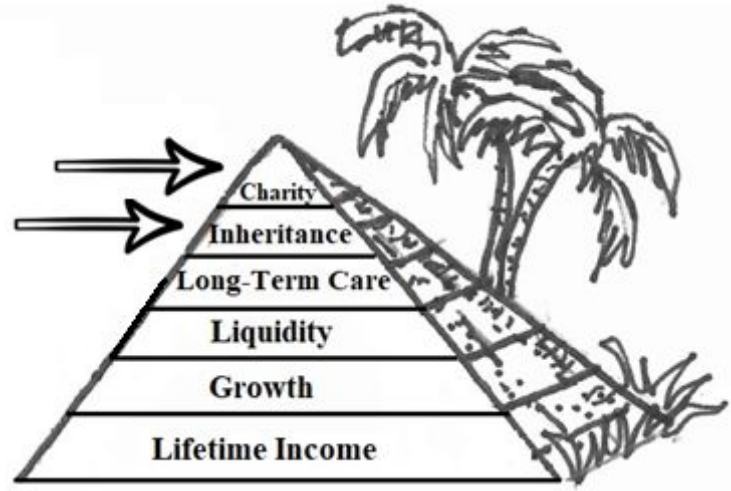
WARNING: The benefit this solution would produce would be much less if one insured never required care. Also, even if both required care, but neither required 5 years, then again, the benefits paid out would be less than this fictitious illustration. Another caveat that I want to disclose with this solution is that it takes some time to put into place. Client's undergo a 30-minute phone interview and must sign a letter permitting the release of their medical records. However, don't let the medical underwriting prevent you from strongly considering this solution for your overall plan.

How about for those that are uninsurable? I have some great news for folks that can't qualify for LTC insurance. A few of the fixed indexed annuities will double the income they pay (for five years) if nursing home expenses arise. This benefit comes with no additional rider fee and does not require the owner to undergo any underwriting.

In summary, long-term care expenditures are a real threat to our overall financial plan. They can easily wipe out a lifetime of hard-earned assets in a few short years. With a repositioning of assets this threat can be greatly mitigated. The earlier this step is taken the greater the risk is reduced. Complete financial comfort can't be fully enjoyed without a hedge against the rising costs of long-term care.

Chapter 8

Level 5 & 6 Inheritance & Charity



I will combine the last two levels of the financial peace of mind pyramid into one chapter. Doing so is prudent because both address assets going to others. Except for a tax break, there is little difference between the two options. What I want my clients to embrace is that these final goals should always take a back seat to the prior levels we discussed previously. A few times in my career, I have seen clients that are fearful of spending money on themselves. I try to remind them that their children will be just fine splitting $300,000 opposed to say $400,000. Either way, the next generation will be enjoying a very handsome

inheritance, and at that time, there is little difference between those two figures. However, that extra $100K can go a very long way in providing value for you in retirement. Plus, let's just be real and honest, you and your spouse are the reason those funds even exist. You both likely worked very hard, and therefore your retirement years should be used enjoying yourselves not watching every penny so that your estate balloons for others.

Regarding inheritance creation, the most prudent solution is often dictated by your age. For investors that are relatively young (25 – 45), often there is very little excess funds; however, it's at this point that inheritance is most needed by your family. Many, I included, turn to term life insurance to provide family protection against the unthinkable. I personally went with term life insurance with a 100% return of principal after 20 years. As the name implies, after twenty years, I will receive back every premium payment I have made. In my experience, electing the ROP (return of premium) benefit makes the monthly payment approximately 60% higher than regular term insurance. I'm quite sure the actuaries have the math figured perfectly to where either election creates equal IRRs; nevertheless, it just "feels" better to me getting all the premiums back in the end. Since it felt better and brought me comfort, I followed my own advice and went that route. I set up my ROP term 14 years ago and have been pleased with the solution ever since.

"Fun is like Life Insurance; The Older You Get the More it Costs"

Kin Hubbard

If you are toward the tail end of your earning years (45 – 65), then quite possibly an Index Universal Life solution could be the prudent vehicle to provide an inheritance to future heirs. The IUL route is costlier; however, it provides much more flexibility. With IULs you begin funding with regular monthly premiums. You immediately enjoy a significant death benefit; therefore, your family is covered in the unlikely event that you pass. However, if the highly desirable alternative transpires and you live, your funds grow according to an underlying index. Usually there is a cap on the upside, typically in the 12% range; however, in down years you never go below 0%. If you happen to need funds you can borrow against the value of your IUL in the future. Once you reach retirement years you can turn your IUL into an annual income stream for life. Of course, the greatest benefit is the fact that if the investor keeps the premium payments current, the life insurance

policy stays in force. As with all life insurance the death benefits paid to your heirs is income tax free.

If you have investable assets and are already in retirement (67 – 80), a Fixed Index Annuity (FIA) with a guaranteed death benefit rider is a possible solution that could work for you. As of this writing (2019) I see guaranteed death benefit increases in the 7% range. Stated another way, if you know $50,000 is earmarked for your son, and you are sure you won't require to tap into it, why not enjoy a guaranteed a 7% increase in the benefit each year? This investment will increase even in years when the overall market declines which lowers overall volatility. Keep in mind, the increase is in the death benefit only; so, only allocate dollars you are very unlikely to need in the future, because if you take the funds back out that guaranteed appreciation in the death benefit is lost. Another attractive aspect of this route is that no health underwriting is required.

Regarding charitable giving, be sure to donate assets that are appreciated in value. If you plan to give $50,000 to your church, don't write a check for that amount. Instead, transfer in-kind appreciated stocks. Use your cash to repurchase the stocks in your portfolio. This way you get a complete reset on the stock's basis and eliminate the embedded capital gains!

However, when it comes to charitable solutions there is an option that often works better than simply giving

your assets away. This alternative I have set up for clients with great levels of success; it is to create a Charitable Remainder Trust (CRT). In summary, the grantor creates and funds an irrevocable trust and retains a lifetime income. The creator can also elect for one additional generation (children) to enjoy lifetime income as well. Once the last beneficiary passes what remains in the account goes to a charity. Charitable Remainder Trusts have many benefits:

- Retain an income stream for life
- Provide income stream for children's life
- Enjoy a current income tax reduction
- Push taxable gains well into the future
- Lower taxable estate
- Protected from Creditors and Divorce
- Support your favorite charity

One warning regarding a CRT. The solution creates an irrevocable trust and as its name implies the trust can't be revoked once put in place. While creating a trust that can't be changed might sound scary at first, this irrevocability is why so many benefits are enjoyed by the grantor; the end remainderman being a charity is the key to the taxation reductions. Obviously, the prudent route is to make sure only a portion of your assets go into this type of a solution. To dive further into the details regarding CRTs

goes beyond the scope of this book. However, should you feel a charitable remainder trust could work in your situation, Carol and I would be happy to meet with you and discuss this great solution in more detail.

In conclusion, your assets should be expended for you and your spouse's retirement. Ironically, the period of life in which inheritance is most impactful is for a young family when excess assets are scarce. To hedge against this risk, inheritance can be created most inexpensively via term life insurance. As one ages, whole life insurance or even annuities with guaranteed death benefits combined with current asset holdings often will create plenty of inheritance for children or charity. If you plan to give funds to charity consult with a financial adviser as there are often techniques that are superior to cutting a check.

Chapter 9

The Annual Withdrawal Myth

You likely have heard of the annual withdrawal rule. It basically states that a growth portfolio should be able to handle, over the long-term, withdrawals of approximately 4% to 5% annually without encroaching too much on principal. Quick side note, the most recent article I read has ratcheted down the annual amount to 3% for a variety of reasons such as low interest rates, and I agree with this lower target.

If you are currently in retirement and have been following this approach it is a fine strategy. However, the annual withdrawal rule guideline is mostly a myth that we can avoid because there is a more reliable path. Let's walk through an exercise that led me to this conclusion.

Let's assume you follow the annual distribution rule. Also, let's conservatively assume a total portfolio return of 5% annually (after fee). All will agree that these returns will vary quite a bit each year. Let's examine the data provided on the next page. We have two different charts. The first chart we will name "Good Early Years" and we will assume the bulk of the strong performance takes place shortly after the account is open. Enjoying this early strong performance, we see that a $500,000 investment, if we required no distributions, will grow to a very healthy $1,597,273 after 25

years. However, what will happen to our result if the tough years come early? An easy way to mix up the returns is to simply flip all the annual returns. For example, Year 1 becomes Year 25, Year 2 becomes Year 24 and so on. Surprisingly, but true, if we completely flip all of the annual returns, the size of the portfolio will be the exact same in the end.

Good Years Early		
Year 0		$500,000.00
Year 1	19%	$595,000.00
Year 2	16%	$690,200.00
Year 3	7%	$738,514.00
Year 4	17%	$864,061.38
Year 5	9%	$941,826.90
Year 6	12%	$1,054,846.13
Year 7	10%	$1,160,330.75
Year 8	5%	$1,218,347.28
Year 9	8%	$1,315,815.07
Year 10	4%	$1,368,447.67
Year 11	6%	$1,450,554.53
Year 12	7%	$1,552,093.35
Year 13	4%	$1,614,177.08
Year 14	9%	$1,759,453.02
Year 15	6%	$1,865,020.20
Year 16	2%	$1,902,320.60
Year 17	1%	$1,921,343.81
Year 18	-3%	$1,863,703.49
Year 19	9%	$2,031,436.81
Year 20	8%	$2,193,951.75
Year 21	3%	$2,259,770.31
Year 22	-7%	$2,101,586.38
Year 23	-13%	$1,828,380.15
Year 24	-4%	$1,755,244.95
Year 25	-9%	**$1,597,272.90**

Average Annual Return 5.0%

Tough Years Early		
Year 0		$500,000.00
Year 1	-9%	$455,000.00
Year 2	-4%	$436,800.00
Year 3	-13%	$380,016.00
Year 4	-7%	$353,414.88
Year 5	3%	$364,017.33
Year 6	8%	$393,138.71
Year 7	9%	$428,521.20
Year 8	-3%	$415,665.56
Year 9	1%	$419,822.22
Year 10	2%	$428,218.66
Year 11	6%	$453,911.78
Year 12	9%	$494,763.84
Year 13	4%	$514,554.39
Year 14	7%	$550,573.20
Year 15	6%	$583,607.59
Year 16	4%	$606,951.90
Year 17	8%	$655,508.05
Year 18	5%	$688,283.45
Year 19	10%	$757,111.80
Year 20	12%	$847,965.21
Year 21	9%	$924,282.08
Year 22	17%	$1,081,410.04
Year 23	7%	$1,157,108.74
Year 24	16%	$1,342,246.14
Year 25	19%	**$1,597,272.90**

Average Annual Return 5.0%

Important Disclosures: Annual returns on the charts provided were randomly created for illustration purposes and do not reflect actual past results, client's asset allocations or the firm's investment models. Returns are assumed to be net of fees, please see page 149 for full list of all disclosures for this publication.

This exercise we just went through may seem like a paradox, and to some extent it is because it does seem to defy logic. In fact, we can arrange all of the 25 annual returns in any order we want, and the end result will always be exactly $1,597,272.90. The key to having the same dollar amount result in the end is the fact that no distributions are ever made.

Now, let's assume you are planning to retire today. Luckily, you and your spouse enjoy a solid social security, thus you only require approximately $25,000 annually from your investments to live comfortably. The following data, on the next page, is an exact replica of the previous charts we just went over with one exception; this time we will withdraw $25,000 annually to cover living expenses. Notice, this is a much more realistic experiment because nearly every one of us will need to rely on our assets during retirement.

Good Yrs Early ($25,000 Dist)			
Year 0		$500,000.00	-$25,000.00
Year 1	19%	$565,250.00	-$25,000.00
Year 2	16%	$626,690.00	-$25,000.00
Year 3	7%	$643,808.30	-$25,000.00
Year 4	17%	$724,005.71	-$25,000.00
Year 5	9%	$761,916.22	-$25,000.00
Year 6	12%	$825,346.17	-$25,000.00
Year 7	10%	$880,380.79	-$25,000.00
Year 8	5%	$898,149.83	-$25,000.00
Year 9	8%	$943,001.81	-$25,000.00
Year 10	4%	$954,721.89	-$25,000.00
Year 11	6%	$985,505.20	-$25,000.00
Year 12	7%	$1,027,740.56	-$25,000.00
Year 13	4%	$1,042,850.19	-$25,000.00
Year 14	9%	$1,109,456.70	-$25,000.00
Year 15	6%	$1,149,524.11	-$25,000.00
Year 16	2%	$1,147,014.59	-$25,000.00
Year 17	1%	$1,133,234.73	-$25,000.00
Year 18	-3%	$1,074,987.69	-$25,000.00
Year 19	9%	$1,144,486.58	-$25,000.00
Year 20	8%	$1,209,045.51	-$25,000.00
Year 21	3%	$1,219,566.88	-$25,000.00
Year 22	-7%	$1,110,947.20	-$25,000.00
Year 23	-13%	$944,774.06	-$25,000.00
Year 24	-4%	$882,983.10	-$25,000.00
Year 25	-9%	**$780,764.62**	-$25,000.00
			-$650,000.00

Acct Value $780K Plus Dist $650K

$1,430,764.62

Tough Years Early ($25,000 Dist)			
Year 0		$500,000.00	-$25,000.00
Year 1	-9%	$432,250.00	-$25,000.00
Year 2	-4%	$390,960.00	-$25,000.00
Year 3	-13%	$318,385.20	-$25,000.00
Year 4	-7%	$272,848.24	-$25,000.00
Year 5	3%	$255,283.68	-$25,000.00
Year 6	8%	$248,706.38	-$25,000.00
Year 7	9%	$243,839.95	-$25,000.00
Year 8	-3%	$212,274.75	-$25,000.00
Year 9	1%	$189,147.50	-$25,000.00
Year 10	2%	$167,430.45	-$25,000.00
Year 11	6%	$150,976.28	-$25,000.00
Year 12	9%	$137,314.14	-$25,000.00
Year 13	4%	$116,806.71	-$25,000.00
Year 14	7%	$98,233.18	-$25,000.00
Year 15	6%	$77,627.17	-$25,000.00
Year 16	4%	$54,732.26	-$25,000.00
Year 17	8%	$32,110.84	-$25,000.00
Year 18	5%	$7,466.38	-$7,500.00
Year 19	10%	-$36.98	$0.00
Out of Funds			**-$457,500.00**

Important Disclosures: Annual returns on the charts provided were randomly created for illustration purposes and do not reflect actual past results, client's asset allocations or the firm's investment models. Returns are assumed to be net of fees, Returns are assumed to be net of fees, please see page 149 for full list of all disclosures.

If the strong returns come in the early years, total performance will drop, albeit only slightly to $1,430,765.

This slight drop makes perfect sense due to the annual $25,000 distributions which eliminates the chance to make interest off interest. As you can see, in the first scenario we are "lucky" that the good years came early. That withdrawal method worked just fine, and a comfortable retirement is the result.

However, if we again do nothing more than flip the annual returns, the effects are drastically different. Since we are taking $25K in distributions, your $500,000 initial investment is completely wiped out in 18 short years! In addition, and equally concerning, the total portfolio return is nearly a million dollars less! I think it's safe to say that no one wants to see such a dramatic variance in their portfolios due to nothing more than the timing of market returns. This experiment provides evidence for the great importance of cash flow certainty!

So, the next time you hear an adviser mention something like "you can comfortably withdraw 4% to 5% annually" you'll realize that is not the most prudent route to take. The withdrawal from principal method is a myth. Instead, opt for a full-blown overall analysis of your entire financial picture that seeks to cover annual expenses with guaranteed lifetime income. Both methods might work; however, only one is guaranteed to work. The one that is certain to work is the one that is going to bring you peace of mind throughout all your retirement years.

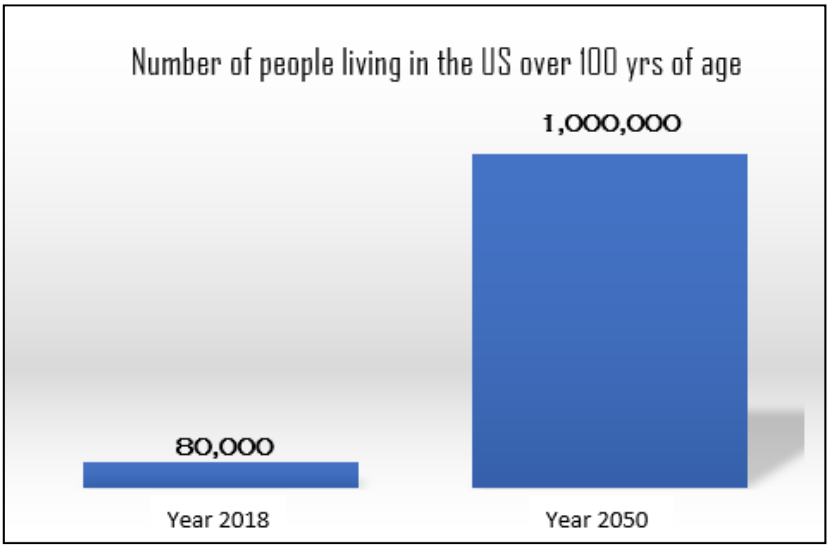
Chapter 10

Longevity Risk

Did you know keeping money in cash, checking, CDs and money market can increase your risk? Okay, let me be honest and admit that first sentence is intended to grab your attention; however, the statement is 100% true! Allow me to explain. I am quite certain when clients use the word "risk", they are referring to market risk and/or security risk. If that is one's only concern, then CDs and cash are going to offer you the lowest level of risk.

However, it is prudent to consider all possible risks. Being overly conservative exposes investors to increases in longevity risk. Thanks to technology and medical advances, most of us are all living longer. A long retirement is an expensive retirement. Longevity risk is real and should be strongly considered in all investment decisions.

Longevity risk is one of the fastest rising threats to wealth plans. Therefore, that is why earlier I stated it is essential for your securities to provide lifetime income. This is also why I explained that a plan is not complete without a hedge against long-term care expenditures. Longevity risk is real and our plan must mitigate it. However, don't take my word for it. Look at this estimation using data from the Pew Research Center:



Source: U.S. Census Bureau

Thus, if you are 65 years old, the chart on the right is you. Even if we don't all live to 100, we still plan our finances assuming we are going to. Again, I can't stress enough that all risks should be mitigated, and with a sound plan that can be accomplished.

Furthermore, being conservative has gotten much more expensive over the past 15 years. So, what exactly do I mean? Twenty years ago, if someone wanted to be conservative, a bond ladder earning 6% of high-grade bonds could be purchased. This was conservative; the principal was protected because interest rates were decreasing (falling rates increase the value of bonds), and even if principal remained constant, a 6% annual interest rate was solid. For folks that felt bonds were too risky, they might

have purchased short-term CDs that were paying 4% or sometime more.

Fast forward to today, we find interest rates at much lower levels. Money markets, certificates of deposit, checking, short term government bonds and savings accounts all offer woefully low returns today. The interest rates on these investment vehicles don't even keep up with inflation. To dive deeper into how "costly" it has become to hold cash equivalents, allow me to revisit a chart we looked at in the liquidity chapter:

Years	3% Growth
1	$50,000
5	$56,275
10	$65,239
15	$75,629
20	$87,675
25	$101,640
30	$117,828

Important Disclosures: Increases are not guaranteed, 3% return is assumed to be net of fees, Annual returns on the chart provided were randomly created for illustration purposes and do not reflect actual past results, client's asset allocations or the firm's investment models. Returns are assumed to be net of fees, please see page 149 for full list of disclosures.

This chart shows us that $50K will grow to approximately $118K if we earn just 3% annually. There are millions of retirees that have $50K or more sitting in cash equivalent accounts at this very moment earning next to nothing. Each retiree that is doing this is growing their bank's profit margins at the cost of increasing their own longevity risk!

There are a variety of reasons why so much cash sits in these types of low interest rate accounts. Some might be legitimate reasons; however, some investors are simply too afraid to invest. I have found that often investors that take this path have been burned in the past by poor investments. I suggest for folks in this group to at least explore other solutions. Today, there are many safe alternatives that are very successful at earning return without exposing the investor to market risk.

"Don't let Your Fear of what Could Happen Make Nothing Happen....."

Zoe Zantamata

In fact, there are investment solutions that eliminate 100% of market risk, while simultaneously lowering longevity risks! Sit down with an experienced financial adviser for some specific recommendations of investment solutions that will work harder for you than your cash equivalents. Also, given the fact that we are all living longer, these investment changes are needed now more than ever.

In conclusion, from this day forward when someone says that a savings account is a wise choice because it lowers risk, you will know that is not the case. In fact, these types of accounts actually increase longevity risk. When we hedge against all types of risk, only then, can we truly enjoy a financially stress-free retirement.

Chapter 11

Asset Designation (The Magic Bullet?)

Taking the time and effort to clearly and precisely lay out each asset, and designating each a clear and focused goal, is the most important task an investor could do for themselves. I would even be willing to say that undergoing this process is the proverbial "magic bullet". This bullet might not be as shiny as one might have imagined; nevertheless, it's amazingly effective. Regarding our stated goal of a lifetime of financial peace, it gets the job done!

"Optimism, Pessimism, Forget That; We're Going to Make it Happen"

Elon Musk

When I first meet with clients, many of them are fortunate to possess a myriad of investment accounts. Then, I often ask why certain account exists. Many say very general comments such as “it’s for the future”. Others even admit that they are not sure. If you fall in this camp, don’t worry, most folks do. However, I am here to tell you there is a superior way, and we will get you straightened out.

If you work with me, after quite a bit of time and effort, you will be able to specifically point to each account and say exactly, to the minute detail, why you own it. For example, your answer to the question might look more like this: “I own this fixed indexed annuity because it has the highest guaranteed income rollup available, and I am going to turn on the income in 8 years, and it’s going to pay me exactly $9,749.88 annually for the rest of my life.” See the difference? This is asset designation. We are going to designate each asset to a very specific and crucial aspect of your overall plan.

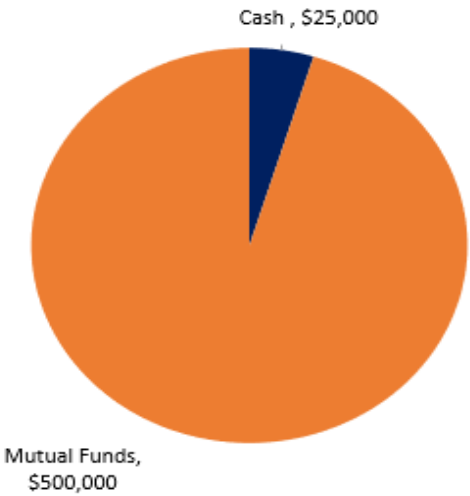
Furthermore, there are additional benefits to this great technique. Once you can identify specific roles for your assets, you no longer require them to do other jobs. Think of your assets like a football team. You want your linemen eating tons of calories, so they grow in size. Conversely, you want your wide receivers to be doing the exact opposite. Investing is no different. Our income accounts are to produce lifetime income and we want them doing little else. Growth accounts we want primarily focused on future

appreciation.

A mistake I sometimes see people make is owning a specific asset, and they want that asset to do everything. A recent individual I sat down with had an annuity in which he was maximizing the lifetime income and was maximizing the principal growth, while also maximizing the death benefit! This was the Swiss Army Knife of investments. The problem is each of these "benefit boosts" cost money (rider fees). What I tell clients regarding annuities is to pick a maximum of one rider. Select the one that you need this asset to cover and don't ever pay for any riders that you won't use. Therefore, asset designation saves you money via security efficiency as well.

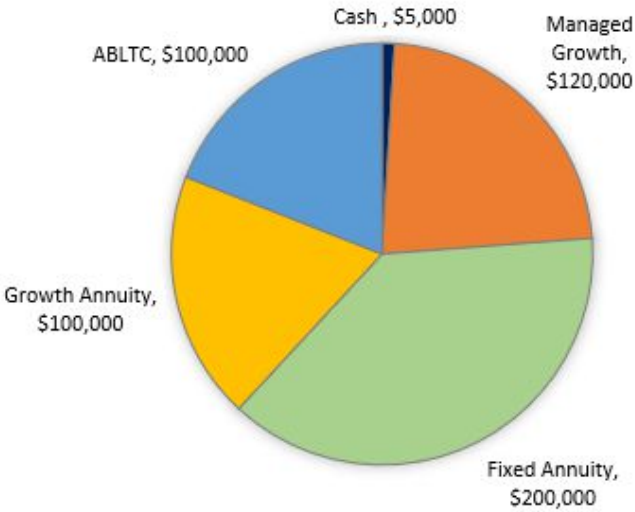
If this is the magic bullet to investing, why are so few investors currently doing it? The answer is because it takes time and effort on both the adviser side and the client side. Unfortunately, too often an adviser just wants to make a quick sale and move on. I contend, how do they know the solution was appropriate if the overall picture isn't reviewed? When you work with me, I will always look at your overall picture. Let's analyze your current financial pyramid. Where is it solid? Where might we need to add additional resources to address voids in your plan? Even accounts with outside brokers should be brought into the analytics of your overall plan so we can be sure it is focused on a specific job and performing near its optimal level.

Given the fact that I deem this technique the financial magic bullet, an example is warranted. Let us assume that John and Jan Doe have approximately $25,000 in cash and $500,000 in various mutual funds:



This is a fairly common holding for clients prior to putting together a comprehensive financial plan. The pie chart suggests this allocation lacks diversification. In fact, holdings such as these are even less diverse than they appear, as many mutual funds hold the same underlying securities.

As you might expect, my first step is to understand the clients estimated cash outflows. For this example, let's assume the Does require $55,000 a year to live comfortably. At this point we are ready to allocate resources (assets) to achieve each level of the financial pyramid. After some reallocations, the Doe's new pie chart might look like this:



This is what a strong financial plan looks like! This type of allocation is going to greatly increase our probability of helping the Doe's achieve an entire lifetime of financial peace of mind. Now that we have the plan built, here is the secret sauce. We lay out this entire plan on a spreadsheet and track, over the years, annual income and market values of the assets. This provides the Doe's a valuable road map that will guide them throughout retirement.

Doe's Financial Plan Summary - Dec 27th 2018

Year	Lifetime Annual Income						Total Income	Lifetime Long Term Care $100K	MV of Accts (Approx)
	Joint Checking $5K	Fixed Inc. Annuity $200K	Growth Annuity $100K	Managed Growth Acct $120K	John Doe SS	Jane SS			
2018		$10,000	$2,000	$2,400	$24,000	$18,000	$56,400		$500,000
2019		$10,000	$2,000	$2,400	$24,480	$18,360	$57,240		$510,000
2020		$10,000	$2,000	$2,400	$24,970	$18,727	$58,097		$520,200
2021		$10,000	$2,000	$2,400	$25,469	$19,102	$58,971		$530,604
2022		$10,000	$2,000	$2,400	$25,978	$19,484	$59,862		$541,216
2023		$10,000	$2,000	$2,400	$26,498	$19,873	$60,771		$552,040
2024		$10,000	$2,000	$2,400	$27,028	$20,271	$61,699		$563,081
2025		$10,000	$2,000	$2,400	$27,568	$20,676	$62,645		$574,343
2026		$10,000	$2,000	$2,400	$28,120	$21,090	$63,610		$585,830
2027		$10,000	$2,000	$2,400	$28,682	$21,512	$64,594		$597,546
2028		$10,000	$2,000	$2,400	$29,256	$21,942	$65,598		$609,497
2029		$10,000	$2,000	$2,400	$29,841	$22,381	$66,622		$621,687
2030		$10,000	$2,000	$2,400	$30,438	$22,828	$67,666		$634,121
2031		$10,000	$2,000	$2,400	$31,047	$23,285	$68,731		$646,803
2032		$10,000	$2,000	$2,400	$31,667	$23,751	$69,818		$659,739
2033		$10,000	$2,000	$2,400	$32,301	$24,226	$70,926		$672,934
2034		$10,000	$2,000	$2,400	$32,947	$24,710	$72,057		$686,393
2035		$10,000	$2,000	$2,400	$33,606	$25,204	$73,210		$700,121
2036		$10,000	$2,000	$2,400	$34,278	$25,708	$74,386		$714,123
2037		$10,000	$2,000	$2,400	$34,963	$26,223	$75,586		$728,406
2038		$10,000	$2,000	$2,400	$35,663	$26,747	$76,810	$132,000	$717,974
2039		$10,000	$2,000	$2,400	$36,376	$27,282	$78,058	$132,000	$707,333
2040		$10,000	$2,000	$2,400	$37,104	$27,828	$79,331	$132,000	$696,480
2041		$10,000	$2,000	$2,400	$37,846	$28,384	$80,630	$132,000	$685,409
2042		$10,000	$2,000	$2,400	$38,602	$28,952	$81,954	$132,000	$674,118
2043		$10,000	$2,000	$2,400	$39,375	$29,531	$83,305	$132,000	$662,600
							$1,788,578	$792,000	$662,600

Important Disclosures: Increases are not guaranteed, Income is not guaranteed. Hypothetical information for illustration purposes only. Please see page 149 for full list of disclosures.

Our new plan increases the Doe's lifetime annual income to exceed their $55K in outflows, and the level of income increases throughout their lives (Pyramid Tier 1). Even with income distributions, total assets grow approximately 2% annually (Tier 2). Any given year, the

Doe's enjoy immediate liquidity of approximately $160K (Tier 3). Where previously they had $0 in coverage for long-term care expenditures. Now we see they enjoy $792K in potential benefits, assuming each require 5 years at some point (Tier 4). Finally, after living a financially comfortable retirement and enjoying $1.7MM in income, including social security, the Does still show investable assets with a market value of over $660K to pass on to heirs, or their favorite charity (Pyramid Tiers 5 & 6).

Folks, there it is, the coveted financial magic bullet! The next time anyone asks me for the secret to investing, I am going to point to this chapter in my book. I hope that you can see the immense power of asset designation. If this does indeed make complete logical sense to you, meet with me here at the Aventail office and let's start a process to set this plan up for you and your family. Asset designation is the magic bullet that will bring you a lifetime of financial tranquility.

Chapter 12

Annual Expenses

On January 20th, 1961, at his inauguration, John F Kennedy gave one of the most memorable speeches of all time. The phrase that that speech is most known for happens to also be my favorite line:

"Ask Not What Your Country Can Do for You, Ask What You Can Do for Your Country!"

John F. Kennedy

This is my favorite line because sometimes a good leader must ask others for help in achieving an important goal. I, as your overall financial adviser, am not going to be shy in asking for your assistance in the execution of your family's plan.

First and foremost, for the overall design to be optimal, your overall financial adviser needs good information. Gathering current data is not enjoyable; I realize that you lost your password to one account and that you don't even know your username to the other brokerage account. However, it will benefit you greatly to take the time to gather updated information. Remember, we owe it to our families to put great time and effort into achieving financial comfort.

I provided a glimpse into how the plan looks in the previous chapter. Notice that an entire section is dedicated to guaranteed lifetime income. We need to understand your family's overall cash outflows so that we accurately generate just the right amount of income. If we don't generate enough, we will be stuck playing the "take from principal" game which we would prefer to avoid. If we generate too much income, there is the possibility that there won't be enough resources to allocate to other crucial solutions such as long-term care insurance.

Secondly, it is possible that I might ask you to help in achieving a successful plan by eliminating unnecessary cash outflows. This will mainly be dependent upon the overall market value of your holdings. If you enjoy a couple million in assets, then cash outflows of $80K a year is fine, obviously if you have less than half a million, we will have to work on reining in annual expenses below that mark. This

balancing act cannot be performed without your input. I don't ask clients for much; however, I do ask them for this.

"Wise Spending is Part of Wise Investing. And it's Never Too Late to Start"

Rhonda Katz

In conclusion, if you take Kennedy's advice and you're asking what you can do for your financial adviser; it's as follows:

1. Understand your annual expenses.
2. Attempt to eliminate any unnecessary cash outflows.

Allow me to have the most control on the asset income production side, and you and your family can focus on the cash outflow side of the equation. Working together, this aspect of the financial plan is relatively easy to achieve.

Chapter 13

Estate Planning

It is extremely important to devote time, attention, and resources to estate planning in order to achieve a comprehensive financial plan that delivers true financial comfort. I am fortunate to work with Carol Shira, who specializes in this area for our clients. Therefore, the remainder of this chapter is going to be written by her. Take it away Carol.....

Every person's circumstances are different and unique to their own situation, but one common theme is the need for having a life and estate plan tailored to those circumstances. Whether you are single, married, widowed, have children, grandchildren, have special needs dependents, own a business, real estate or many other scenarios, each comes with their own responsibilities and unique challenges. Therefore, it's imperative that you take the steps to plan, protect and preserve what you have worked so hard for. From very basic estate plans to extremely complex ones, taking the time to plan and execute them will give you and your loved one's peace of mind.

"Family is Not an Important Thing. It's Everything."

Michael J. Fox

Important Disclosure:

The information in this material is not intended as legal advice. Please consult legal professionals who practice in the state and county where you reside for specific information regarding your individual situation. The opinions expressed, and material provided are for general and educational information purposes only.

Last Will and Testament

A last will and testament is a legal document that puts in writing a person's final wishes as to what they want to have done with their assets and possessions, and to whom they will be left to. A will can also determine what happens to minor children; it can direct ownership interest in a business. A will can even put into writing one's final wishes regarding funeral arrangements and burial.

A will forms the foundation of a person's estate plan, and is the key legal document used to ensure that the estate is settled as the decedent intended. Another important

aspect to consider when creating a will is who you will appoint as the PR (personal representative). The PR of an estate is an executor, administrator, or anyone who oversees the decedent's property. The PR can be an individual or a corporate fiduciary. There are many legal duties to settling an estate, so naming a professional, such as a corporate fiduciary, may be wise to consider when creating a will.

Intestate

If an individual passes away without a valid will, they die “intestate”. This means that the probate laws in the state that the person currently resides determines what happens to their assets. The prewritten laws would decide how to distribute the assets and property, and who would receive payments. Notice state laws can’t possibly take into consideration unique family’s circumstances. If the decedent had minor children, the court could possibly establish guardianship arrangements based on its determination as to the best interests of those children. Therefore, as you can see, it is very important that you take the time to protect your loved ones by seeking sound legal advice to avoid the undesirable outcome of having the state make financial decisions for you.

Power of Attorney

A power of attorney (POA) is a legal instrument containing an authorization for one individual to act as the agent of another, also known as the principal. POAs terminate at some point in the future, either by its terms, or by operation of law such as death of either the principal or agent. The person appointed is usually called an Attorney In-Fact. A power of attorney can be either general, durable, or limited. Some states have adopted a statutory power of attorney.

Why should one consider having a power of attorney? When accidents, sudden illness, planned or unexpected absences occur, or when you just can't cope, you may need someone to manage your financial affairs. It can be done in anticipation of a future need, for a special purpose, or for a limited time. The agent will (by your instructions) safeguard and manage your assets and financial affairs if you are unable to manage them for yourself or if you lose legal capacity to do so.

Health Care Directives

Your health care directives including your living will and power of attorney for health care are very important legal documents. These documents give your family clear, written direction about your end-of-life wishes, which can spare them anguish and make sure you get the kind of care you want. With these documents, you can set out the

treatments you want, or don't want, and name someone to make sure your wishes are honored. Without guidance from you in these legal documents, family members and health care providers can easily become uncertain about treatment decisions. When family members disagree about what course to follow, the consequences can be rifts that are never resolved. Be aware that each state may refer to these documents in different names, so ask your legal professional for the exact name and specifics in your state.

Living Will

This document, also known as a health care declaration, bears no relation to the conventional will used to leave property at death. Instead, a living will is a document that lets you state what type of medical treatment you do, or do not, wish to receive if you are too ill or injured to direct your own care. Among other treatment options, you can use it to be sure doctors do, or do not, "pull the plug." The document may have a different name in your state (it's often called a "declaration"), but you'll recognize it as the place where you write down your specific wishes about types of medical care.

Durable Power of Attorney for Health Care

This document, also known as a medical power of attorney, allows you to name a trusted person to make

medical decisions for you if you are unable to communicate on your own. The person you name to make these decisions is usually called your agent, health care surrogate, or attorney-in-fact. You can give your agent the authority to oversee the wishes you've set out in your health care declaration, as well as the power to make other necessary decisions about health care matters. Some states combine the declaration and durable power of attorney into a single form, most often called an "advance health care directive."

Living Trust

A living trust is similar to a will, in that it is a legal document that directs how assets are distributed at one's death. However, there are important differences in how these documents work, and each can have their place in someone's estate plans. To understand if a trust would be beneficial to you, I have listed some information about how a trust works and some of the benefits of creating one.

A Living Trust Avoids Probate

One of the first benefits of a living trust is that it avoids probate. With a valid will, your estate will go through probate, the court proceedings through which your assets are distributed according to your wishes by the executor.

A living trust, on the other hand, does not go through probate, which often means a faster distribution of assets to your heirs. It can significantly reduce the time period from

a year with a will, down to four months or so with a living trust (if assets under $2MM and contain no real estate). Your successor trustee will pay your debts and distribute your assets according to your instructions.

A Trust May Save You Money in the Long Run

At first, drafting a living trust will cost more than drafting a will, as it is a more complex legal document. Moreover, you must also retitle many of your assets, which requires separate paperwork; this process is often referred to as "funding the trust." However, this upfront time and cost is more than repaid in the future. Once you pass away, all assets in your trust transfer to beneficiaries without going through the timely, and often costly, court probate process. Also, if you become incapacitated, the trust will help you avoid costly time delays regarding your financial affairs.

A Living Trust Provides Privacy

Another important difference between the two legal documents is the level of privacy offered with a living trust. A living trust is a private contract. As such, your last wishes provided in a trust are not made public at your death. A will, on the hand, is a court proceeding and therefore, by law, the entire document must be made available to the public for all to see. If you are a private person and don’t want anyone

knowing your business, even post mortem, then you'll need a trust.

No Multi-State Procedures

If you own real estate in two or more states, you will find great value in creating a revocable trust. With just a will, any property in another state will require a different probate in its own state; a living trust can help you avoid multi-state probate proceedings.

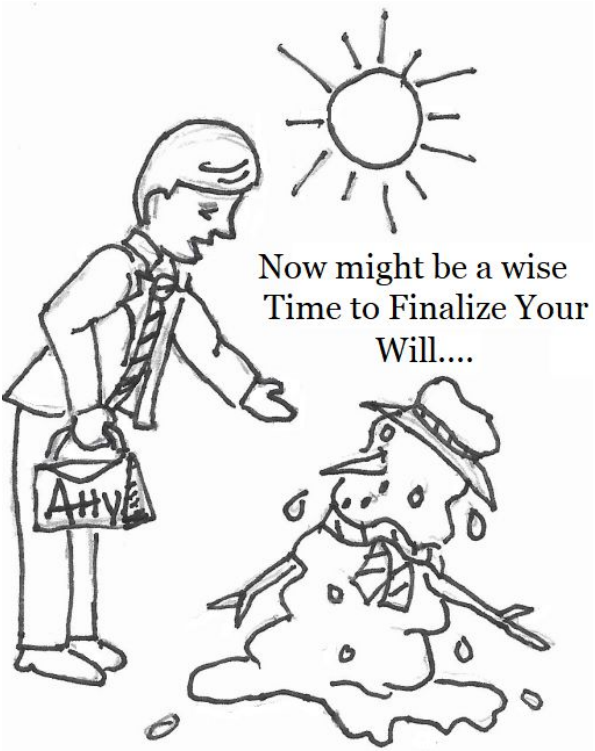
Smooth Transition

Another benefit is that a living trust is written so that your successor trustee can automatically take over your affairs if you become ill or incapacitated. During your lifetime, if you did not create a durable power of attorney, the court would have to appoint someone to oversee your financial affairs who will have to report to the court for approval of expenses, sales of property, etc. With a living trust, however, your handpicked successor trustee can manage your financial affairs without court intervention, and since the trust is revocable, if you dispute your incapacity, you can retain control yourself.

Will vs. Revocable Trust Conclusion

While a living trust makes sense for some people, wills are just fine for others. A general rule of thumb is the larger the value of one's estate, the greater need there is for

a living trust—although even this is not foolproof. If you don't know which is best for you, please come meet with me. We will discuss your unique situation, and together we will decide what course of action is best for you and your family.



Irrevocable Trust

An irrevocable trust has a grantor (creator of the trust), a trustee and beneficiaries. Once the grantor places an asset in an irrevocable trust, it is a gift to the trust and, as

its name implies, the creator cannot revoke it. At first that might seem like a drawback because it restricts what can been done with assets in the irrevocable trust. However, if we think deeper about this, we can see it can also bring a variety of benefits. This type of trust removes all incidents of ownership, effectively removing the trust's assets from the grantor's estate. This provides some very powerful planning advantages. Some benefits associated with irrevocable trusts include:

- To protect assets placed within the trust from creditors and even divorce.
- To reduce or often completely eliminate estate taxation.
- To prevent beneficiaries from misusing assets, as the grantor can set conditions for distribution.
- To gift appreciated assets to a future charity while still retaining the income from the assets for lifetime.
- To gift a principal residence to children under more favorable tax rules.
- To hold a life insurance policy that would effectively remove the death proceeds from the estate.

An irrevocable trust is a more complex legal arrangement than a revocable trust. Because there could be current income tax and future estate tax implications when

using an irrevocable trust, seek an experienced estate planning attorney for guidance.

In summary, a family's financial plan is not complete unless proper and updated estate planning documents are in place. Come pay a visit to me here at the Aventail Wealth Management office and together we will figure out which documents are correct to put in place for your unique situation. When the right financial plan combines with solid estate planning financial peace of mind is achieved!

Chapter 14
Ultra-Wealthy

Overall, this book is not tailored to the ultra-wealthy. Instead, it's written to provide value for families that have investable assets between $50K and a few million. In fact, for folks fortunate enough to find themselves in the category of "Ultra Wealthy", the pyramid we talked about at length would have entirely different goals and objectives. When one's net worth is north of $5 million, their goals should be less focused on income, growth, liquidity and insurance, and more focused on tax reduction strategies. Although this book is not tailored toward the ultra-wealthy, this chapter is. There are a plethora of options and investment vehicles that might benefit the ultra-wealthy by reducing taxation:

Annual Gifting

By far the easiest and most effective technique to reduce one's estate is to take advantage of the annual gift exclusion. Currently, you can gift $15,000 in cash or property to anyone in the world you choose, and you don't even have to fill out a form. Therefore, if you have three kids, you can reduce your estate $45K every year without encroaching one penny on your estate tax exemption amount. Obviously, if you're married, your spouse can do the same. If you feel there is even the slightest chance of

having a taxable estate, start a gifting program now. A secondary benefit of a gifting strategy is you will be able to see how beneficial the gifts will be to your children and grandchildren.

Standard Trusts

Secondly, if your net worth is over $5,000,000, and you don't have a trust, you should speak to your attorney about creating a trust! Trust me (pun intended) you don't want a multimillion-dollar estate to go through probate. The $5,000 you might spend in drawing up a few trusts will save you $150,000, or more, in probate costs. Most people will name themselves to act as trustee. Thus, while you are alive and in good health, the instrument is considered a revocable trust. You will see very little difference from owning assets in your own name and owning assets in your revocable living trust.

The benefits of trusts really begin once you either pass or become unable to make financial decisions on your own. At that point the instrument turns into an irrevocable trust. No one can come along and change your wishes. A successor trustee steps in at this point; however, they have a fiduciary duty to adhere to your written direction. I strongly recommend naming a corporate trustee. Part of the reason you create trusts is to avoid family fighting. Be rest assured, if you have three kids, and name one to be the

successor trustee, that the other two will forever hold a grudge.

The beauty of trusts is just how unbelievably flexible they can be. If you take time to write them correctly, you can pretty much "rule from the grave" in any way you want. Carol and I cut our teeth administering trusts so allow me a few sentences of dos and don'ts:

Do name a corporate trustee, if you must have a relative, name them as a co-trustee with the corporate fiduciary.

Do have age attainment language that distributes assets to children beneficiaries at various age such as 25, 35, and 45.

Do leave a separate writing that lists, in extreme detail, who gets personal property items.

Do be very specific with your wishes. Have Carol read over the draft before you sign it, she knows the ambiguity pitfalls.

Don't place ridiculous investment restrictions on trustees. The state already has guidelines and they are good ones.

Don't leave specific dollar amounts for bequests. Use percentages, they correctly increase the gift as the trust grows, and decreases the bequest as the trust declines.

Don't allow trusts to continue to exist after they fall below $100,000 because the trust administration costs are too high on a percent of account basis. Under $100,000 have the trust payout to a beneficiary of your choosing.

Tax Reducing Strategies

If ever comes the day that I find myself fortunate enough to have a net worth over $10,000,000, there are four strategies that I will establish to reduce/eliminate any possibility of estate taxation. These also have the power to reduce other taxes as well. The four strategies are as follows:

Charitable Trust

A very popular type of trust for tax mitigation is charitable trust. The two most popular are Charitable Remainder Uni Trust and Charitable Remainder Annuity Trust. Charitable trusts are irrevocable trusts that pay lifetime income to the grantor. They also allow for one more generation (your children) to enjoy lifetime income as well if you choose to do so. After the second generation passes, the account residue that remains in the trust is inherited by the charity of the original grantor's choosing. The tax saving power of these trusts comes from the fact that in the end, the corpus goes to charity. Since the final gift to charity is irrevocable, the IRS allows the grantor to recognize a portion of the trust as a gift that can be used to reduce current taxes. Tax benefits can include reduction in income, capital gains and estate taxes.

"For It Is In Giving That We Receive"

Saint Francis

A secondary benefit of CRTs is that assets you gift into the trust are no longer in your name; therefore, the assets in the trust cannot be taken as part of a divorce or even lawsuits. A quick example: Assume John Doe is a retired Exxon Mobile executive and he holds $1 million dollars' worth of Exxon stock. He would like to reduce his holdings in half to diversify; however, the basis is extremely low, and he doesn't want to pay $100,000 in capital gains taxes. He might establish a $500K Charitable Trust. In the document he states that he would like to receive back $30,000 a year for the rest of his life, and once he passes, he would like for his only daughter to also receive $30,000 for the rest of her life. Decades into the future, after John's daughter passes, whatever assets remain, if any, goes to the charity he chose, which is his church.

We fund the CRT with the appreciated stock and sell it all the next day. Do we pay capital gains taxes on the appreciated asset at time of sale? No, because this is now in a charitable trust that has a tax-exempt remainderman. In fact, we make a calculation to figure out what the present-

day value of the gift is, and Mr. Doe enjoys an immediate income tax deduction! Some of the capital gains taxes would flow out to the grantor each year via his retained $30,000 income. To be clear, this is a very basic example just to illustrate the power of a CRT. If you might benefit from this strategy, come see Carol and I so we can discuss in much more detail.

Grantor Retained Annuity Trust (GRAT)

One of the most powerful tools to avoid estate taxation is a GRAT. They essentially "freeze" the value of assets, such as businesses, or privately held stocks, for estate taxation purposes. A GRAT creator will want to initially fund the trust with assets that have a high potential for significant growth. Over time the grantor receives back a predetermined percentage of the initial investment. The value of what remains, if any, is completely out of the creator's taxable estate. To dive very far into this type of trust, and how they work is beyond the scope of this book; however, know that they are a very powerful tool for the ultra-wealthy. One quick note, if you are contemplating a GRAT ask your estate planning attorney to consider arranging a Zero-Out GRAT, which means a calculation is made to ensure the amount you withdraw back out of the GRAT does not use up any of your estate transfer exemption.

Irrevocable Life Insurance Trust (ILIT)

While it is true that life insurance avoids income taxation, it still is counted toward your taxable estate for estate taxation purposes. However, if you set up an ILIT, every penny avoids your taxable estate. Here is how they work. You establish an irrevocable trust and name beneficiaries (often children). Each year you gift into the trust an annual amount to pay the premium of the life insurance. You give the trust beneficiaries a 30-day window to withdraw the amount you just placed in the trust, (they won't because they don't want to be cut out of inheritance). After 30 days its technically part of the trust and can be used to pay the insurance premiums. Therefore, the irrevocable trust is the policy owner, you are nothing more than the insured. When you die, the funds go directly into the irrevocable trust and avoid income tax or estate taxation. ILITs are very powerful; however, they can be expensive to maintain over the long-term.

Family Partnerships

This planning technique involves gathering assets (can't be just marketable securities though) such as family business, possibly some real estate holdings and placing the assets in a family partnership. If the patriarch or matriarch desires to retain control during his/her life, that can be

arranged. The ownership can be transferred over time using the gift exemption we discussed previously.

Furthermore, an equally powerful benefit is the discounting factor a private partnership creates. Think about it? If all the assets are held by a private family partnership that has restrictions, doesn't that reduce the overall value? Yes, it does, and the IRS agrees. The tricky part, which should be left up to the legal professionals, is determining how much reduction to take. Obviously, the higher the percentage of value reduction one takes, the more the IRS is going to scrutinize. Don't even consider for one second going this route without first consulting with an attorney that is well versed in this arena.

Conclusion

I strongly feel that for high net worth families, taxation management becomes a much more focused area of their overall financial plan. As you can see from above, there are a variety of tax mitigating options available to the ultra-wealthy. I spent my entire career managing money in trust arrangements; therefore, I am quite comfortable in the arena and would greatly enjoy working with you to implement some of these solutions for you and your family. If you are ultra-wealthy, additional financial comfort will be enjoyed by taking steps to avoid unnecessary taxation.

Chapter 15

Probability & Statistics

It was a class that was required to get an accounting degree. I entered the class not realizing that 99% of my position on everything would be forever changed. Please know I am not overemphasizing for additional impact; this new true understanding really was that influential. I literally see life as a set of constantly running probabilities. For those reading that believe in fate, I am sorry to say I am on the other side of the fence. In fact, I would say that if you enjoy the thoughts of fate and destiny, it might be wise to not venture to far into statistics and probability. This subject, which has given me powerful knowledge, also definitely has a negative side effect. It makes a world of mystery and wonder turn into one that is quite predictable, and one that falls nicely within a near perfect bell curve at a much higher rate than most people realize.

The good news is that when it comes to achieving financial comfort, predictability is wonderful! I promise that I will always position your assets for the highest probable outcome for success. Nevertheless, here is the rub, sometimes the highest probability doesn't win. Fortunately, as the sample size grows, and the time increases, the higher probability will always win. Yes, I mean always. If you and I were to flip a coin and if it came up heads, I gave you $100,

and if it comes up tails you gave me $99. Notice that after one flip you could very easily be down $99 bucks. However, if we keep flipping over and over, in the long run you are guaranteed to take every dollar I have. In this flipping game, you only have a razor thin 1% advantage over me, yet over time, you are guaranteed to take every dollar I have. Trust me, fate cannot and will not save me. That 1% advantage you enjoy is indeed that powerful; however, just imagine how powerful a solution is that has 10%, 20% or even 30% advantage over alternative strategies? Once you have an advantage, probability and statistics suggests all you need from that point forward is time.

I'm sure most of you have heard of big gamblers being up a sizable amount to a casino. In this case, what does the casino do every single time? They provide the player

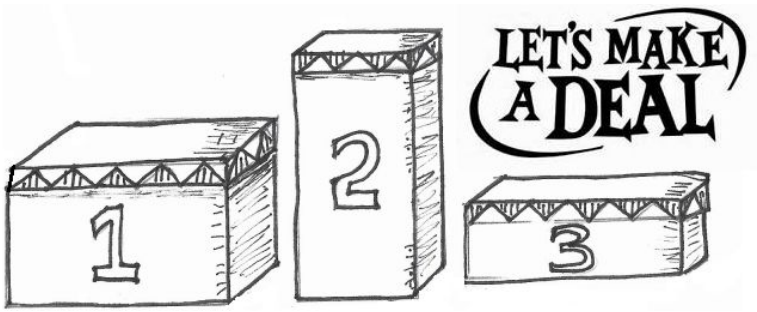
with the most elegant room in the hotel at no charge. Why take on more expense for a player that is beating them? Because the casinos know better than anyone about the power of a slight statistical edge. They stay the course that keeps the gambler coming back for more action, and after enough repetitions the house's statistical advantage wins. We as investors can learn so much from this. Having a plan in which we can overlook the short-term variance, and instead focus on the long-term edge, is not easy at times, but it is vitally important.

Finally, one of the most significant words in the world of probabilities is "magnitude". The higher the magnitude of the issue at hand, the higher one should demand its certainty. For example, if I am on a flight, I am willing to accept an 80% chance that I will receive some delicious in-flight peanuts. However, I most certainly am not fine with an 80% probability of a safe flight. Notice the probability of the desired outcome was exactly equal; however, the magnitude of the outcome was extremely different. The proverbial safe flight when it comes to financial planning is to not run out of funds. This objective is so crucial that it certainly possesses an extremely high magnitude; therefore, an 80% success rate is unacceptable. As such, our financial planning process must seek to achieve a significantly elevated probability of success.

Chapter 16

Let's Make a Deal

You finally landed a spot on *Let's Make a Deal*. It's the final round and Monty Hall tells you to pick Box 1, 2 or 3. He knows which box has the grand prize ($50,000 in gold bars)! The host also knows which two have the Zonks!



You choose Box 2 and the host shows you that it was wise, on your part, not to select Box 1 as he reveals that under Box 1 is a Zonk (an old wore out shoe). Now he offers you a chance to switch your pick.

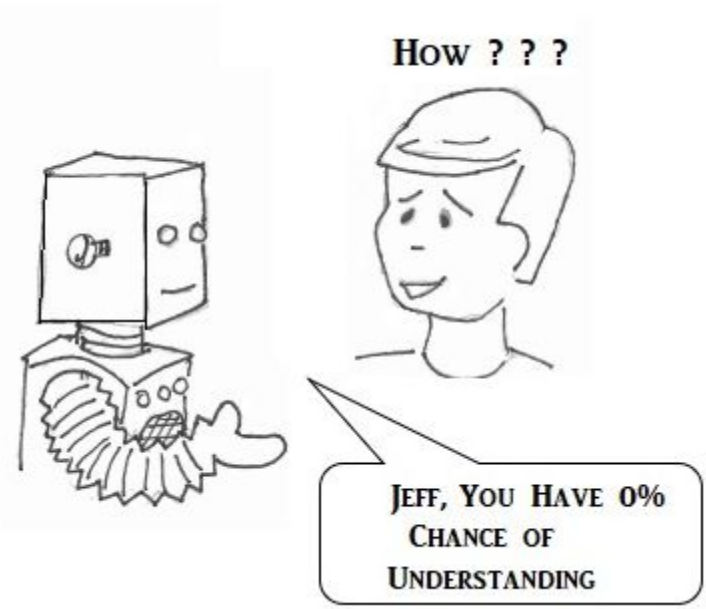
You look to me in the crowd for guidance (why you chose to bring your financial adviser to the gameshow is a whole other book). I boldly and profoundly tell you to switch. I explain that you have a 66.7% chance to win the gold if you switch. You most likely don't believe me, you feel at this point it's at worst a 50/50 shot and you would feel so

terrible if you had it right to begin with and switched. Thus, you tell Monty your decision to stay with Box number 2. Drumroll please..... Unfortunately, the bright, gleaming gold was indeed, as I suggested, under Box 3. You're devastated; however, at least you now are the proud owner of a smelly and very hungry rat!

Now, why did I take you on this fictional game show journey? I did it because I wanted a chapter that communicates clearly that if you elect to have me as your family's financial adviser, then I will promise that behind the scenes, in every choice we make together, that I will be correctly doing the probabilities and mathematics. Even when your thought process suggests a different route, just keep in mind that as a kid I calculated math problems just for fun!

If possible, try as hard as you can to not allow your perceived understanding of the situation lead you astray. I'm confident that even after reading this chapter, most readers will insist I am just wrong, and the odds are 50/50.

Let me assure you that indeed the switch was your highest probability for success (66.7% win rate to be exact). I feel it's wise not to explain the mathematical details, as doing so I might lose too many readers who are not here to understand optimal gameshow theory. Should you happen to care enough to desire additional discussion, shoot me an email and I will be happy to do so.



Now, here is where the waters get very muddy. In the gameshow, there was a 33.3% chance that the gold was indeed under your original selection of Box number 2. Stated another way, you could have made a poor mathematical decision to stick with box 2 but still won the grand prize! On the flip side of the coin, you could have

made a great mathematical decision (to switch on my advice) and still lost. Thankfully, in investing our decisions are never all or nothing like in this example. In addition, this is a small sample size as you only get to play the game one time. In investing we have hundreds of decision points, and over time a 66.7% advantage is astronomical, and will always overcome short term variance.

In conclusion, at the time of purchase, one who buys a lotto ticket is making a poor financial decision. However, if said individual goes on to win millions on their $1 investment, they will forever feel that the moment of ticket purchase was their single most prudent financial transaction of all time. Just because someone thinks that way, it doesn't make it true. A sound approach focuses on the process, not the end results. Fortunately for us all, the more sound and solid the process, the higher the probability those positive results will closely follow.

Chapter 17
Concentrations

All the preceding chapters discuss aspects that I recommend you do during retirement. There is one aspect of your financial plan that you should never do during retirement, and that is to hold a concentration. I feel so strongly about this pitfall that I dedicated an entire chapter to be sure we all avoid it.

There are two mathematical equations I review to know if portfolios and asset allocations are efficient. They are the Sortino Ratio and the Sharpe Ratio. I go into detail about these ratios in Chapter 5. Nothing makes these ratios plummet more than concentrations. The reason for this is that a concentration exposes one's portfolio to specific business risk, or even industry specific risk. These are risks that investors are not compensated for and therefore, by definition, decreases the efficiency of an overall portfolio.

Furthermore, the older you become the wearier you should be about asset concentrations. For example, a 50-year-old doctor who has put his life savings into his practice is heavily concentrated. However, he has great influence and control over the outcome. Once the doctor retires and sells his practice for $5,000,000 he will have little to no control over his investments and, therefore, should not have a single concentration of $250,000 or greater. I don't care that your

favorite stock has never had a single negative year. I don't care that Berkshire Hathaway is run by Warren Buffet. I don't care that Apple will always be the number one phone seller. Nothing will ever change my mind that concentrations should be avoided. The math is definitely on my side on this one. Therefore, if you hold a concentration, you do so knowing that I warned you not to. In fact, I require clients that hold concentrations in their portfolios to sign a letter directing me to hold it.

When I was a junior portfolio manager, I vividly recall the senior portfolio manager (and my boss) often saying the following:

"A Concentration May Create Wealth; However, Diversification Preserves That Wealth"

William G. Middleton

This saying stuck with me through the years. Companies such as Enron, Global Crossing, Kodak, Sears, Toys R Us, Lehman Brothers and General Electric only solidified my position that it's important to avoid the concentration pitfall.

Sometimes there are situations in which one is forced to hold a concentration. In these cases, it is vitally important to discuss the situation with an experienced financial adviser. You might be pleasantly surprised to find out that there are solutions to this problem. In my past position at SunTrust Bank, I purchased covered call options for individuals that were forced to hold stock concentrations. The technique worked very well.

Another advanced technique is called a collar in which both a price floor and price ceiling are created. The cash inflow you enjoy from selling a call (the ceiling) pays for the put that you buy (establishing a floor). As you can imagine, restricting the price movement to this narrowed range lowers the client's variance exposure.

Even if a complex solution does not exist, other assets can be reallocated to offset the effects of the concentration. For example, let's assume you were an executive at Exxon Mobile, and hold a tremendous about of XOM stock with a huge embedded gain. We will be sure to have very little to no other energy stocks in your portfolio. While this won't eliminate the corporate specific risk, it will mitigate the energy industry risk.

It is important to note that concentrations aren't limited to securities. I have seen folks with concentrations in silver. I see investors with concentrations in CDs. Often, I see concentrations in real estate. If you are fortunate enough to own 5 rental properties and find yourself needing to invest $100,000, before buying a sixth rental my recommendation is to at very least consider diversifying into other areas.

In conclusion, inexperienced investors make a variety of mistakes. If I made a list of these missteps, in my top three would certainly be holding concentrations. It is a trap that is easy to fall into because we get comfortable with solutions that have worked in the past. However, it is also a misstep that can cripple a portfolio in a very short period of time. At very least, chip away at concentrations every year and introduce other asset segments; your portfolio efficiency is guaranteed to increase if you do so. Avoiding concentrations during your retirement years is one of the pieces of the puzzle to achieving a lifetime of financial comfort.

Chapter 18

The Truly Independent Review

Have you ever searched the internet for additional information on a financial solution that you are considering putting into your financial plan? If so, you may have noticed that nearly every review either claims the product is the greatest solution ever created by mankind, OR it's toxic waste that will certainly ruin the entire world! Such reviews are provided by nefarious financial product salesmen that possess an ulterior motive of trying to persuade you, not educate you. At this point in the book, I hope you realize that I don't operate that way; I strive to communicate to you my true analysis. I want to tell you all the relevant pros and cons about investment solutions so that you can make informed decisions about your financial future.

I realize there is an endless list of possible investments. I had to cut off the list at some point. I made the determination to include a list of solutions that has the highest probability of influencing the greatest percentage of the readers of this book. Sadly, a currency arbitrage triangle between the Japanese Yen, Iceland Krona, and Russian Ruble didn't make the cut (yes this is a real type of investment). Instead, I stuck with more mainstream investments. To eliminate any subconscious favoritism, I sorted the following list alphabetically.

Annuities

Annuities are the most complex securities in this entire list of solutions. To fully understand them took me over a year of in-depth study. The reason for this is that annuities have the most moving components. Given this fact, one should most certainly seek out an experienced professional to help them find the annuity that is correct for them. Also, annuities are absolutely 100% a long-term investment! Any adviser that tells you differently is wrong. However, they certainly have their place and most retirees should have at least a portion of their investments in them. The first benefit is the guaranteed lifetime cash flow; which, as you likely recall, is the foundation of a sound financial plan. A second benefit is appreciation potential without market risk. Appreciation is dependent on an underlying index of equities; however, your funds are not invested in the equities. These two benefits provide such value that most financial plans I create have a position in annuities.

Two important warnings regarding annuities: 1) If you choose to "boost" the power of your annuity via a rider be sure that the extra benefit is going to be used sometime in the future. If there is any question whether or not the extra benefit will be used in the future, don't put the extra rider in place. 2) Don't invest any funds in annuities that you might need to use in the next five years. While it's true that you won't lose money due to market losses, one could lose value due to early withdraw penalties.

Many annuities are unattractive, provide little value, and should be avoided; however, there are a few very solid annuities that truly contribute to the overall goal of financial comfort.

Bonds

Bonds can be a great way to diversify an equity heavy portfolio as these two asset classes lack correlation. In addition, bonds can supply the portfolio with some guaranteed annual income, which further lowers overall portfolio volatility. In addition, bonds are liquid from day one. However, great care should be placed in buying bonds. When interest rates rise, this is an environment that creates a headwind for bonds. Long duration bond funds should be avoided during a rising interest rate environment as NAV (net asset value) will decline and NAV losses might never be recovered. My typical strategy that works in all interest rate environments is to create a portfolio of individual bonds with laddered maturities over several years. Bonds are no longer the guaranteed safe haven like they were in the past. However, they do have their place and they are a piece in the overall puzzle for most investors.

Cash \ CDs \ Money Market

Since I wrote an entire chapter on this (See Chapter 10), I won't spend much time in my explanation. Cash equivalents have two primary benefits. The first is that cash provides a level of comfort to clients as the liquidity provides instant purchasing power. The second benefit is that market declines are impossible. Nevertheless, I strongly feel the downside to this asset class outweighs the benefits. Holding a large percentage of wealth in cash equivalents increases one's longevity risk. This asset class guarantees a negative real rate of return (i.e. return minus inflation). If we were to compare the average annual return of every solution in this list, cash equivalents will end up in dead last. Therefore, set aside the minimum amount of cash that you are comfortable holding, invest the rest in other areas that will work harder for you.

Commodities

Commodities derive their value from the physical characteristics of the asset itself. For example, gold and silver coins have value because the metal they are made from has value. Other examples include platinum, oil, corn, wheat, cotton, livestock, oil and the list goes on. We are also going to consider investments in commodity funds to be in this group as well. For example, the fund GLD (which tracks the price of gold) we will consider a commodity investment. The power of commodities is that they generally show an

inverse relationship with the stock market. Commodities tend to perform well any time the stock market struggles for a long period of time. Therefore, in almost every instance, when one adds some commodities to their overall holdings, the efficiency of the overall plan increases. I recommend clients buy a fund that holds a wide variety of different types of commodities. This protects the client from one specific commodity price correction. Some Armageddon predicting investors will actually take physical possession of a commodity (i.e. hold actual gold bars in their safe at home). While this would provide value in a complete financial collapse, I feel the probability of such occurrence is so low that I would recommend against it.

Cryptocurrency

I believe in the technology that is the infrastructure for cryptocurrency which is called block chain. It is a fascinating subject, and I recommend you research it before venturing into this arena. The most interesting aspect is the fact that block chain makes hacks virtually impossible. If you venture into cryptocurrency, just know that the ride will be wild in this arena so buckle up. I do believe that a small portion of your investable assets can be invested in cryptocurrency. As time goes by, more institutions will accept the currency and the value will rise. Also, as cryptocurrency becomes an investment option (such as legit cryptocurrency mutual funds or ETFs), this will also further

boost this asset's price. The big unknown is the world's governments. They correctly recognize that cryptocurrency reduces governmental power; therefore, I would not be surprised to see future laws to restrict crypto growth. Due to this issue cryptocurrency has never been an asset in the financial plans I design for my clients.

Debt Elimination

Many readers might question whether debt elimination is an investment or not. I contend that it is because an investment is nothing more than the allocation of excess funds. Often the best investment is to pay down high interest debt. If you have any debt that has interest of 8% or higher, at least a portion of your investment process should include paying the balance down. Trust me, a guaranteed return of over 8% does not exist; therefore, mathematically you can't do better than an investment in debt reduction!

Domestic Stocks

Blue chip stocks that are invested in US companies should make up the core of your managed portfolio. The long-term growth potential of ownership in these behemoths is quite attractive. Many have a secondary benefit of an income stream that comes to the investor in the form of a dividend. Furthermore, stocks are liquid. The primary knock (and only true drawback) is that, in periods

of economic weakness or global unrest, they can be quite volatile. If you don't believe me, take a look at how domestic stocks performed in 2008. Nevertheless, the prudent investor has other solutions to offset these difficult years that do come around from time to time. Not panicking and staying invested has always proven to be the correct action to take.

At some point in your lifetime you may be enticed by penny stocks. You will read on the internet or hear from a friend how they bought a stock for $0.10 a share and it grew to $2.00 a share! Those 20X returns do exist; however, they are few and far between. Most penny stocks end as a going concern and fade away completely. After all, that is why they are penny stocks in the first place!

Funds

I am going to lump together mutual funds and ETFs (exchange traded funds) in this category. The primary benefit of funds is that you can quickly, easily, and cost efficiently enjoy a high level of diversification for any amount of money. Also, except for index funds, investors enjoy having a fund manager who eats, breaths and sleeps the specific area you are investing in. With funds, you will want to primarily focus on its stated overall objective. However, secondarily you also must consider the annual expense. Often you can find two funds that have over 95% correlation; however, one might be half as expensive to own.

Both ETFs and mutual funds must pass along to investors the gains that are created in the fund throughout the year annually. This makes them a bit less tax efficient then holding the individual stock or bond. However, when this occurs, the investor's cost basis is increased so the minor tax issue is mitigated. I would encourage the average investor to not get too hung up on the slight loss in tax efficiency.

International Stocks

The future growth engine of the world economy is international companies. Therefore, over the long-term international stocks will likely enjoy attractive growth. However, this is also the area that will continue to see immense volatility. I could write a second book on this one

subject alone but to mention a few: The Far East continues to be unstable. Even countries that show staggering growth, like China, have markets that continue to be filled with corruption and instability. The Eurozone, which once seemed to be an international safe haven, has also become quite uncertain. We have seen Greece default on their debt. We have seen Britain take an exodus from the European Union. And finally, we see tariff wars heating up across the globe. In short, there are some great gains to be realized in international stocks; however, there are also going to be some significant growing pains as well. My portfolios have always held international positions; however, due to numerous geo-political issues, I have purposely kept exposure under 10% of total equities.

Life Insurance

I don't believe that enough people have proper insurance in place regarding their overall financial plan. There are a great variety of life insurance solutions to meet a plethora of budgets and needs.

There is term life insurance that has reasonable premiums for big coverage; however, no cash builds up. This is often used by young couples who recently started a family that they would like to protect from financial ruin if the unthinkable transpires. I personally have a $1 million term policy called ROP (Return of Premium); as its name suggests, if I accomplish the highly desirable goal of

outliving the 20-year term I receive back every penny of all the premiums I paid in.

For wealthier investors who can afford higher premiums, permanent life insurance has many advantages. The first is the fact that the policy stays in force perpetually as long as premium payments are kept current. Also, investors can borrow against the cash value of permanent life insurance. As the loan is repaid, you are basically paying yourself back. Even if you have a sizable loan outstanding, the life policy stays in force. If you pass before the loan is paid off, the insurance company will simply reduce the life benefit payout by the loan plus interest. Permanent life insurance can also provide a future income stream to hedge against a long life.

For extremely wealthy individuals, life insurance can be an essential tool in the fight against estate taxation. I go into detail about this technique in chapter 14.

The primary drawbacks to life insurance are the upfront hoops one must jump through. These vary on the amount and type of insurance you buy. Also, some policies can be expensive. Finally, regarding permanent life insurance one should only venture into this solution if they are nearly certain they will stay the course for lifetime.

The protection to your loved ones is the value in this asset. The life insurance benefits paid out, at your death, are 100% tax free to heirs of your choosing.

Long-term Care Insurance

Without question, the one asset that too many people are missing is long-term care insurance. I mostly blame advisers for this solution void. Most would rather sell you a $100,000 annuity or put you in a $100,000 managed portfolio. The drawback to this asset is that it does require some time and effort to initially set up.

However, it is worth the effort because this valuable asset hedges against the one risk that truly is a destroyer of financial plans, which are expenses associated with long-term care. In this arena, I feel ABLTC (asset based long-term care) insurance is the way to go. ABLTC is more of a reallocation of assets opposed to an insurance expense.

All the ABLTC solutions I deal with return 100% of your investment in the rare case that you don't need to use it for care benefits. Also, the solutions I setup pay benefits for the insured's entire lifetime. For folks that end up requiring a long nursing home stay, ABLTC produces some of the highest internal rates of return.

ABLTC can also cover two individuals, and joint accounts do not have to be spouses! Combining the fact that long-term care expenses are skyrocketing, with the fact that we are all living longer lives makes ABLTC an essential piece to the financial comfort puzzle.

Options

Options are a derivative because the price of an option is essentially linked to the price of some other asset. Furthermore, as its name implies, this type of investment provides the investor an "option" to take some type of action in the future. A call option grants the buyer an opportunity to buy a security in the future at a set price. In this case, the buyer would benefit if the underlying asset greatly appreciates in value. A put option allows the buyer to sell the underlying security at a set price in the future. The buyer of a put option would value from the option if the underlying asset lost significant value. Investors can buy options on stocks, wheat, orange juice, gold and much more. The underlying asset itself rarely ever actually trades hands; instead, the transaction is closed with a cash offset. In certain unique circumstances, such as an executive with a huge concentration of a publicly traded stock, options can provide great value. Recently, options have been used to create structured product solutions. Essentially, these structure products allow you to participate in most of the upside of an index without participating in any index declines (note pricing occurs annually).

Private Investment

If you have wealth, then I'm quite confident you have been approached by a friend or colleague that has some type of business deal that promises big returns. Maybe the

prominent businessmen in town pool their money together and buy commercial real estate (private REITS). Maybe your cousin has a small business that just needs some additional funding. There is a plethora of private placements all in need of your capital.

I believe that some private placements can be fruitful. However, be sure to have three aspects ironed out before investing. 1) Make sure the private entity has a written formula that defines exactly how valuation is determined. 2) Understand exactly what information the private placement will be providing so sound judgements can be made in the future, and 3) Understand how you can liquidate your investment if ever comes the time for you to decide to exit. In my experience, these three aspects are usually not addressed, and each can create significant problems. If these are ironed out, upfront, private placement becomes viable and returns can be extremely high. However, be sure to only invest a small percentage of your overall funds in private placement; the bigger the potential returns, the greater the risk!

Real Estate

The greatest strength of real estate is that a machine can't make more of it! Well, besides the manmade islands in Dubai. This fact restricts supply, and economics 101 teaches us that this places a natural valuation floor on real estate. This floor generates comfort for owners that most other

assets don't enjoy. Notice that the supply of land near water is already quite low, while the demand for it steadily rises. That is why a house that might be worth $200,000 a few blocks away from the amazing lake is valued at $700,000 if it were on the wonderful lake.

"One of the Best Investments on Earth is Earth"

Louis Glickman

A secondary benefit of real estate is it either provides you living enjoyment or an income stream as it appreciates over time. However, I see two primary downsides to real estate. The first is that it is not liquid. In my estimation it costs investors, on average, 6% to get into and out of a real estate position. Therefore, the first 12% of true appreciation is lost just in transaction costs alone. Secondly, real estate costs money to own. It always amazes me to hear someone say. I bought this house for $100,000 and I sold it 15 years later for $200,000, that was the easiest $100K I ever made. They are quick to forget all the money they poured into the house, such as mortgage interest, mortgage insurance,

home insurance, real estate taxes, maintenance costs, major repairs the list goes on and on. Real estate is also an asset I see most people willing to hold concentrations in. I recommend against that if you can possibly avoid it. In my experience, for a typical retiree owning your home free and clear is plenty of investment in real estate. In addition, ownership in a home can provide comfort, stability, and a safety net to all retirees.

Reverse Mortgage

When used correctly, a reverse mortgage can really be a difference maker regarding cash flow. Often these can be put in place with little to no credit check. Cash flow is immediately improved, and often a lump sum of capital is available to either invest or use for other life expenses. The beauty of a reverse mortgage is that you are making your residence provide you with cash, opposed to taking cash from you. Also, once you pass away, if your home equity is greater than the loan plus interest, your heirs inherit the excess. However, if the loan plus interest is greater than the home equity, your estate owes nothing. However, the upfront limits are set to where negative equity is very rare.

The greatest drawback to a reverse mortgage is the fact that they are very costly. Given their high cost, buyers of this solution should be confident that they will remain in the home several years. This solution might be too cost prohibitive to pursue for anyone thinking of moving in

under a decade. However, for an investor that wants to stay in their home, even if it's more home than they need, the reverse mortgage route very well may be the answer!

Social Security

Franklin D. Roosevelt was a pure genius to put this social program in place. Social Security is nothing more than a forced savings plan that, in the end, creates a lifetime annuity. You have paid 6.2% (double that if you are self-employed) from each paycheck to establish this valuable asset. Many elderly individuals would be in dire straits without their monthly social security cash flow.

At times, you might hear negative comments about the social security program. This is due to the fact that people are living much longer than originally predicted. However, my analysis suggests that social security will be just fine for several decades to come. Also, the government makes important tweaks which improve the health of the social security program. Changes include increasing the full retirement age and ending the "file and suspend" strategy.

Regarding social security I encourage clients to think of it as a very sizable asset that demands your time and attention. For example, one would have to invest several hundreds of thousands of dollars to replace the guaranteed income social security provides. As such, everyone should take the time to walk through a social security maximization report. Actually, to be more precise with my wording you

should seek a social security optimization process. The difference is optimizing social security analyses how it works with all your other investments. If your financial adviser has never even offered this process to you, it might be time to find a new adviser.

Asset Review Conclusion

In conclusion, all investments have pros and cons. Many of these solutions reveal differing levels of performance during various market and economic cycles. This lack of correlation explains why I have found that the most comfortable retirees have a myriad of various investment solutions. Investors should narrow down their exact goal for the investment. Once the outcome is established, some solution choices can be eliminated and the correct few will begin to come into focus. WARNING: This chapter is only a very brief oversimplification of the various investments. Before making any decisions regarding the investment of your wealth, let's sit down and discuss in much greater detail. An experienced financial adviser understands how various investment solutions work in coordination with each other.

Chapter 19

Information is Power

Given the fact that you are taking time to read this book, and also the fact that I have taken time to write it, provides proof that we agree on the fact that information is power. In today's world, with such strong technology at our fingertips, financial information should be easy to obtain and understand. Nevertheless, I don't feel as though the wealth management industry has done a great job in providing elevated levels of detailed information. Highly restrictive compliance laws are mostly to blame.

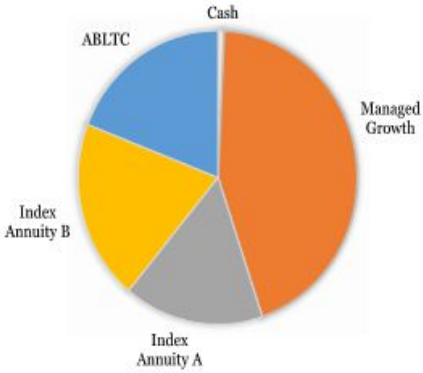
Today, people are seeking more information prior to acting. Therefore, I want to bring this type of data to families I work with. An industry that does an amazing job at communicating information about its product is the automotive industry. I recently had to purchase a new vehicle for my wife, and I was quite impressed at how much we could "window shop" until we found just the right vehicle. I want to replicate (to some degree) that window shopping experience. I have created a resource that includes sample financial plans at:

www.**W**ealth**M**anagement**I**nfo.com

Jane Doe Overall Financial Plan

Investment Focus: Growth

Data Input			
Investable Assets =	$680,000	Social Security Annual Increases =	2%
Single or Married =	Single	Investment Accts Avg Annual Return =	4%
Age =	60	Long Term Care Years Covered =	Lifetime
Retire Age =	67	Long Term Care Years Required =	7 Years



Asset Type	Amount	Comments
Cash	$5,000	Your Investment Acct Comes with a Checkbook for Same Day Access To Your Liquidity
Managed Growth	$300,000	100% Liquid Acct - Top 5 Holdings: Amazon, Google, Sysco, Visa & Apple
Index Annuity A	$110,000	Client enjoys 80% of upside in positive years. If index is negative return that yr is 0%
Index Annuity B	$135,000	Inc Acct 25% upfront bonus, Lifetime Inc increases even on benefit - caveat life income can't be turned on for 10 yrs
ABLTC	$130,000	Asset Based Long Term Care which instantly covers LTC expenses as soon as the policy is put in place.
Social Security	-	A SS Maximization Report will be run to pinpoint exact date to turn on benefit
	$680,000	

Jane Doe FPS (Financial Plan Spreadsheet)

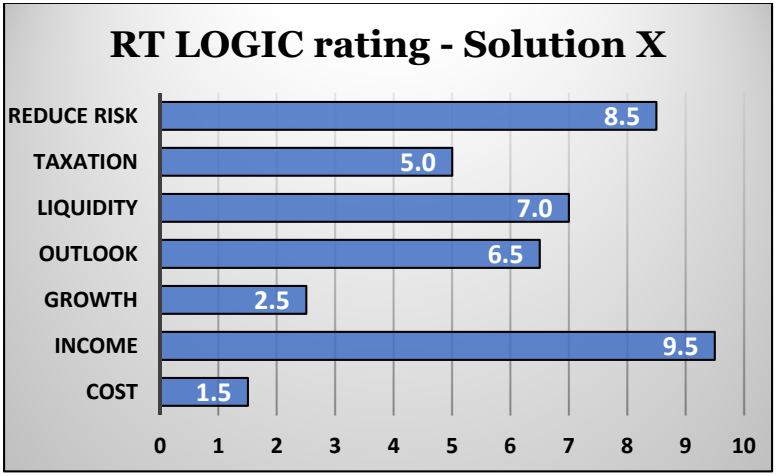
Age	Year	Lifetime Annual Income					Total Income	Lifetime Long Term Care $130K	MV of Accts (Approx.)
		Cash Acct $5K	Managed Growth $300K	Index Annuity A $110K	Index Annuity B $135K	Jane SS			
60	2018	$100	$1,500				$1,600		$680,000
61	2019	$100	$1,515				$1,615		$705,585
62	2020	$100	$1,530				$1,630		$732,178
63	2021	$100	$1,545				$1,645		$759,820
64	2022	$100	$1,561				$1,661		$788,552
65	2023	$100	$1,577				$1,677		$818,417
66	2024	$100	$1,593				$1,693		$849,462

Important Disclosures: Increases are not guaranteed, Income is not guaranteed. Annual returns on the charts provided were randomly created for illustration purposes and do not reflect actual past results, client's asset allocations or the firm's investment models. Returns are assumed to be net of fees, Please see page 149 for full list of disclosures.

This "window shop" resource will provide a deeper dive into the financial plan that I have been speaking about ad nauseam throughout this book.

In addition, there are other great resources such as free reports. You will find ways to get your own free Social Security Maximization report! The site has several videos that I have created which focus on key financial concepts.

Another area of the website is a tool I call RT LOGIC (Pronounced Right Logic). This is a quick reference of various investments in which I rate the seven areas investors care the most about regarding investments: **R**isk, **T**axes, **L**iquidity, **O**utlook, **G**rowth, **I**ncome and **C**ost.

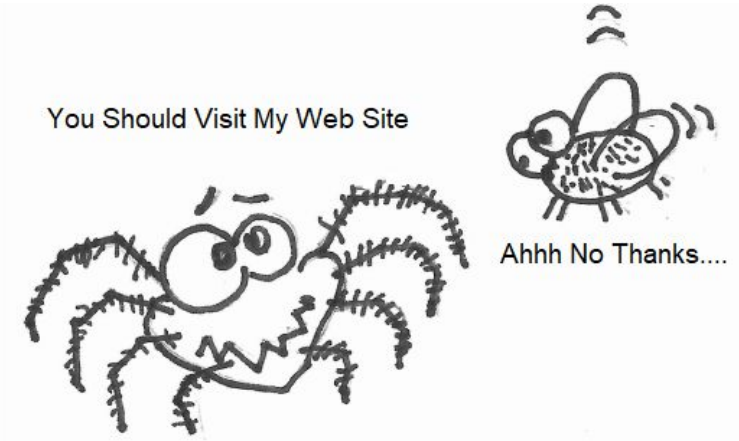


As you can see in this sample the rating system is 0 - 10. Think of me as an Olympic judge holding up a card evaluating each investment's performance in various important categories. This RT LOGIC rating system allows you to quickly make general assessments. For example, this fictitious investment X shows high marks in income

production. If income is your goal, then further analysis can be made to see if the solution is indeed correct for your overall plan.

Therefore, when you have a free moment, please take advantage of this resource I have created. Also, everything requires little to no information from you. Review, analyze and evaluate at your pace from the comfort of your home. Finally, anything on the site I am happy to go over with you in more detail via a live or virtual meeting.

To sum it up in a single sentence: It is the main hub to easily access a plethora of investment tools and information that will provide you guidance down the path that leads to a lifetime of financial peace of mind.



www.WealthManagementInfo.com

Chapter 20

Taxation Diversification

Despite all the great concepts and techniques that we have collectively learned together up to this point, there remains one last true game changer. Taxation possesses the power to disrupt our overall plan if we don't give it the time, attention and care it most certainly demands.

Taxation is so impactful, in certain situations, it alone may require us to change our normal course of action. For example, in earlier chapters I was a strong advocate of waiting to turn on social security to grab the 8% income roll up. Nevertheless, in three of the past four plans that I have constructed, I have correctly overridden my own guidance and advised clients to start early social security withdrawals. Why? The lone catalyst for this pivot away from the normal action was taxation. In these recent plans, my clients had significant assets; however, nearly 100% of their investable assets were in taxable qualified plans. This trend will most certainly continue as many investors simply maximize their contributions to their 401K accounts.

"The Only Difference Between Death & Taxes is That Death Doesn't Get Worse Every Time Congress Meets"

Will Rogers

Your future self will thank you prodigiously if you take steps now to diversify the taxability of your investments. Let's assume you are contributing 7% to your company's 401K plan and they match up to 4%. You will most certainly continue to contribute at least up to the 4% match. However, knowing withdrawals from your 401k account are entirely taxable, it might be prudent for any excess funds, above the match, to be invested in a Roth IRA. By establishing this second account you are diversifying the taxability of your investments. Investors won't get a tax benefit upfront for establishing a Roth IRA however, there will be no tax due on all future income and gains. Also, once

you do start enjoying social security, Roth distributions won't count toward figuring out if your social security is taxable; municipal bond income doesn't even possess that extra benefit!

Regarding social security, up to 85% could be taxable. That sure sounds like double taxation to me. However, I didn't write the rules I just try and help you follow them in the most optimal way possible. It's quite complicated how one figures out social security taxability; however, for simplicity sake, consider the following:

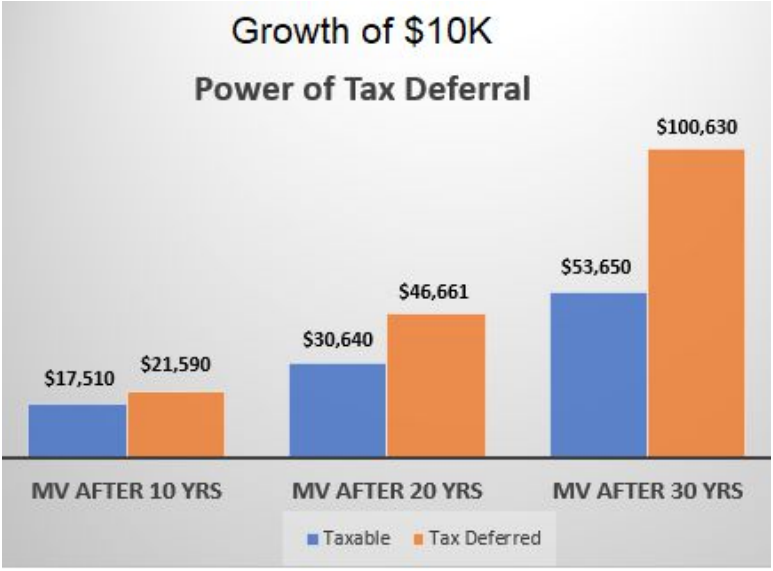
Part of SS that is Taxable	Tax File Status Single	Tax File Status Married
0%	$0 - $25,000	$0 - $32,000
50%	$25,000 - $34,000	$32,000 - $44,000
85%	Over $34,000	Over $44,000

* Oversimplification Please Consult Your CPA
Source: IRS.Gov

To further complicate everything, only half of the income you enjoy from social security counts towards these totals. However, Roth distributions don't count toward these limits at all. As such, managing this becomes possible for folks that own a significant position in both Traditional and Roth IRAs.

Roth IRAs provide additional flexibility to investors as well. For instance, no one knows what the future holds and if the unexpected occurs, one can withdraw from a Roth without penalty (up to the principal amount invested).

Another area investors can take advantage of are tax deferred accounts such as indexed annuities and universal life solutions. These accounts push taxation into the future. That delay can be very powerful, especially for investors with a time horizon of over twenty years. I recently came across the following chart that really caught my eye:



Assumptions: 28% Tax Bracket & 8% Annual Return

Important Disclosures: Source FinancialMentor.com
Increases are not guaranteed, Fees will lower returns, Annual return is fictional for illustration purposes only. Please see page 149 for full list of disclosures.

The only difference between these two accounts is that one enjoyed the benefits of tax deferral and the other one did not. To be fair, the variance is not quite as dramatic once we account for the fact that the deferral account will indeed eventually have to pay some decent size taxes. Nevertheless, the power to delay tax is very compelling.

Finally, I felt it would be valuable to readers if I listed a few of the more popular types of accounts and then provided my taxation views on each:

Alphabetical List of Types of Accounts	Commentary on the Taxation
Annuity	Taxes are Deferred, However Distributions are LIFO therefore taxable earnings go out first
Muni Bonds	Income is Tax Free, However Income is Counted Toward Determining if SS is taxable
Portfolio of Funds	Taxed on Dividends, Gains Passed Out Annually
Portfolio of Stocks	Taxed Annually on Dividends, Gains Stay Unrealized Until Sold
Roth IRA	Fund with After Tax Dollars, No Upfront Benefit, However all Future Gains and Income Are Never Taxed Not Even at Distribution
Social Security	Up to 85% Could be Taxable, See Earlier Chart in the Chapter for Details
Taxable Bonds \ CDs	Interest is 100% Taxed Each Year
Traditional IRA \ 401K	Tax Benefit Upfront, However 100% of any and all distributions are taxable. Be mindful of required distributions (RMDS)

* I am not a CPA, please consult your tax professional

In conclusion, you are probably familiar with the advice that you should diversify the assets within your accounts. I'm strongly suggesting that you should also seek to establish diversification in the taxability of your accounts. A variety of accounts that differ in the way that taxation is treated will provide you vital flexibility in your retirement years. Every dollar saved by making your plan as tax efficient as possible is a dollar earned.

Chapter 21

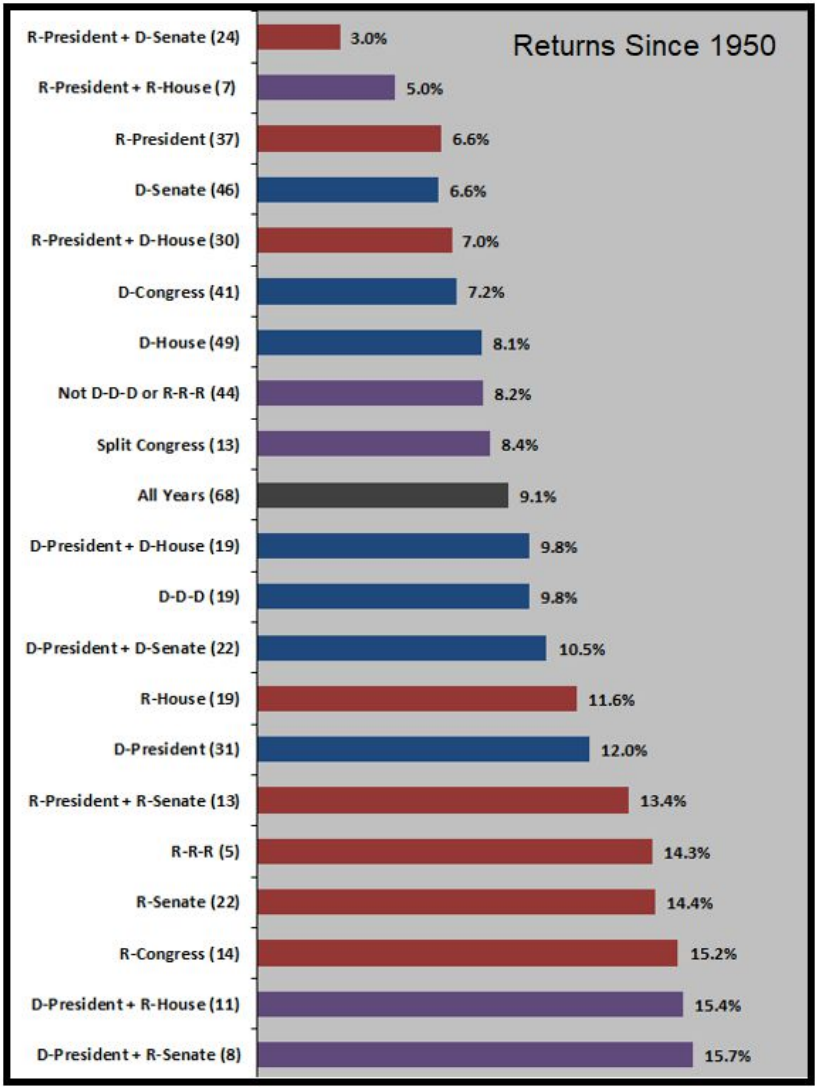
Politics & Investing

Starting my career as a wealth manager I turned to mathematics, charts and data to shape my positions. Early on I was quite surprised to see that the average annual return of the stock market during times of a democratic president was higher than periods when a republican held the white house. This gap has grown wider due to the tough markets during the Bush Jr. era while Clinton and Obama periods saw huge market advances. However, don't celebrate too quickly if you are a democrat as the strongest performance of the markets, going back to 1950, are during times in which republicans hold majorities in Congress.

"Politics is almost as exciting as war and quite as dangerous. In war you can die only once, but in politics many times"

Winston Churchill

I absolutely love this chart and if you have not yet seen this data, I'm sure you will appreciate perusing it a bit.



Source: CXOAdvisory.com

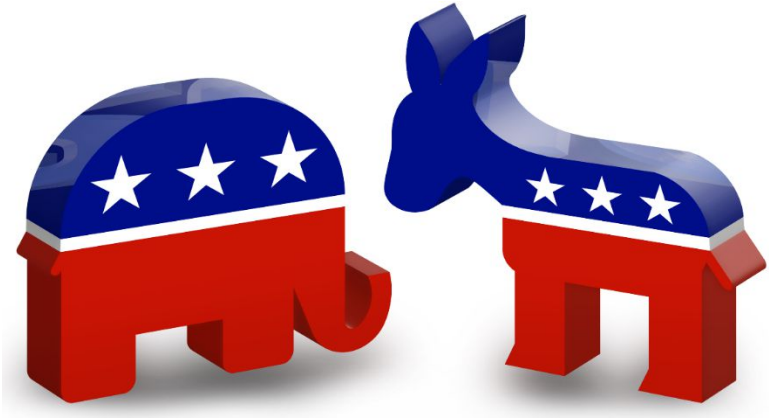
My current observations strongly suggest that politics will play an ever-increasing role in the markets. When conflicts arose fifty to sixty years ago the United States went to actual war. Today it is painstakingly clear that economic war is the preferred method of conflict resolution. I'm quite sure that for mankind swapping out bombs and replacing them with economic sanctions is a step in the right direction. Nevertheless, this will undoubtably add even more volatility to the markets.

Another current change in today's politics is just how swiftly information is disseminated. In the past, negotiations with heads of state would take place behind closed doors; results of those discussions would be shared with the press and ultimately end up public knowledge through newspapers. It would take days, sometimes weeks for the process to fully play out. Contrast that with today's process. Today, politicians instantaneously share their various positions on an hourly basis. The result is that today a political issue might impact the markets dozens of times before a resolution is reached.

The third aspect of today's economies that allow politics to have a much greater impact on markets is globalization. As one who wants to see my client's portfolios flourish, I'm for a global economy. The reason is quite simple; more consumers equals more growth. However, a global economy opens the markets up to a higher level of volatility. As of this writing the US and

China are not agreeing on a variety of topics. The resulting tariff war is causing serious declines in both markets. Also, major US companies (such as Apple) have significant business interests abroad. When foreign politics gets messy often global companies take the hit.

In the end, it is imperative that investors fully understand and accept the fact that going forward politics will drive market volatility even higher, especially in the short term.



Chapter 22

Conclusion

From the very beginning and throughout many of the chapters I stated that this book is 100% educational only and that I didn't have anything to sell to you. Well, the time has come to disclose that is a lie. In fact, I do have one thing to sell. I want to sell you on YOU!

I want to sell you on the fact that you can indeed achieve your financial goals, and that you don't have to just survive retirement, rather you can flourish and enjoy this part of your life. Taking your precious time to read through this book is proof enough that you 1) recognize the great value in having an overall financial plan created, and 2) you are willing to put in the effort to execute the plan. I know the path, and I look forward to guiding you through the entire process.

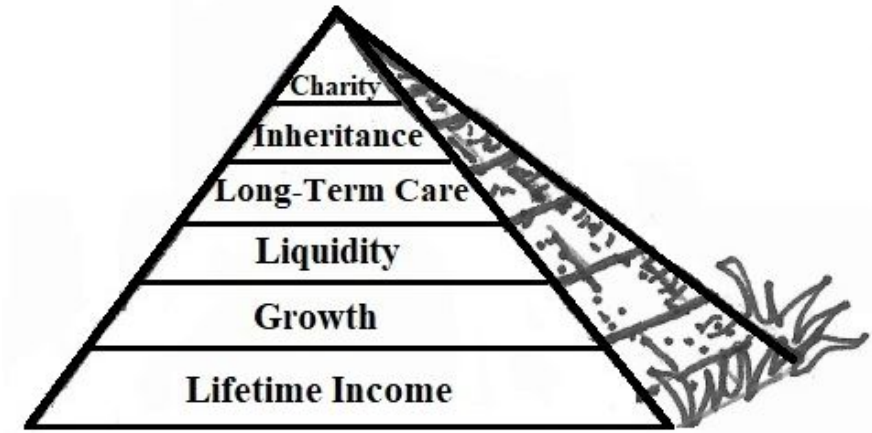
We learned about marginal utility, an economic concept that is more powerful than mathematics. We learned that you not only want to diversify the assets of your portfolios, but you want to also diversify the taxability of your accounts. I explained that the magic bullet to investing is specific account designations. We also enjoyed a handful of cartoons and quotes that added a pinch of entertainment. One last quote, which happens to also be one of my favorites, and one that can be applied to both financial and life decisions:

"Live Your Life as though Your Every Act were to Become a Universal Law"

Immanuel Kant

What Mr. Kant is telling us is that when faced with a decision, we should assume that we, and everyone else in the entire world, are held to that same action forever. If we come from that perspective, we will certainly take great care in the decision-making process. We will demand relevant and timely information. We will seek solutions that have the greatest probability of success. Most importantly, logic will guide us to informed conclusions. By the time retirement arrives we will all have worked too hard not to fully enjoy this important part of our lives. The magnitude of getting our financial affairs in order is sky high; we owe it to ourselves and our families to make the effort and take the time to get it right, and there is no better time than right now to get started.

In my experience the most effective path we can follow to achieve a successful retirement is best represented by the financial hierarchy pyramid. Its design is to achieve never-ending financial comfort for those that are willing to undergo the long process of putting it in place:



If you were restricted to only retain one concept from this entire book, I would strongly suggest it be this image. If this type of plan resonates with you, consider working with me. Together we will build toward the important goal of putting in place a customized plan that delivers and maintains a lifetime of financial comfort for you and your family!

Best regards,

Brian C. Ulch, MBA, CES
President & Senior Portfolio Manager
Aventail Wealth Management LLC.

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Masters in Business Emphasis in Finance, University Central FL

Florida Graduate Trust School, University of South Florida

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Investment Adviser FINRA Series 65

Florida, California & Illinois Insurance Lic. 2-14 Life & Annuity

Memberships / Activities

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United Way of Central Florida, Past Finance Chairman

Circle of Friends, Inc., Advisory Board Member

Polk State College Advisory Council - School of Business

Co-Founder & Chief Investment Officer of Aventail Wealth Management, LLC.

About

Brian is married and has two daughters. He likes to fish and play poker. He can often be seen in Tampa cheering on the Lightning or in Orlando rooting on his UCF Knights!

Disclosures

This publication contains the opinions and ideas of Brian C. Ulch in an individual capacity. Although he is currently the President and Senior PM of Aventail Wealth Management, LLC., none of his expressed or implied opinions are that of Aventail Wealth Management.

There is no specific legal, tax or investment advice given throughout this entire publication. Brian is not a CPA and is not an Attorney. Any and all commentary that appears to be taxation or legal advice must be considered unofficial. Regarding investment advice individual consultation can only be done on a one on one basis.

Please consult a CPA, attorney or your own financial advisor before pursuing any wealth management solution.

Any ideas, opinions or positions can and should be assumed to be significantly different given one's specific situation. The author disclaims responsibility for any liability or any loss deriving from the application of solutions presented within this publication.

Past performance and past figures are provided as a reference to communicate more effective solutions. The past performances that are referenced should not be expected to continue in the future. Investments may lose value.

Annual returns on the charts provided were randomly created for illustration purposes and do not reflect actual past results, client's asset allocations or the firm's investment models. Returns are assumed to be net of fees.

This book is provided as a guide to help the reader understand the various aspects of wealth management. Even if the book was purchased, that purchase does not constitute that the reader has engaged in any services of the author.

Additional care must be taken regarding qualified accounts (such as IRAs and 401Ks) – negative impacts from taxation and penalties must be considered.

While great care and effort has been made to ensure typographical errors are eliminated, there is a chance such errors do exist within this publication.

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Oh no....here we go again

Oh good, this mandatory last page provides me room to leave you all with two last quotes that I couldn't quite fit in the book!

"Discipline is Choosing Between What You Want Now and What You Want the Most"

Abraham Lincoln

"The things you really need are few and easy to come by; however, the things you can imagine you need are infinite and you will never be satisfied"

Epicurus