A TO B APPROACH

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About me

I have been an investment advisor for 30 years: the first five years with a large Wall Street firm (who shall remain nameless for obvious reasons) and the last twenty five years as an independent (advisor).

I am a one-man shop. My five years on Wall Street tried to teach me that the client was nothing more than a vehicle for the firm to make money. I concluded that if I was going to help people achieve financial security; I would have to be completely independent and on my own.

At the end of those five years as an investment advisor, my decision was made for me. The firm kicked me to the curb for standing up in a sales meeting and refusing to sell a big offering . As I was headed out the door, I told my boss that this offering would never make a dime. Between 1991 and 2000, through the biggest bull market in history, the fund never got back to its original offering price. It was eventually merged with another fund and just disappeared.

On the other hand, maybe I was fired because I was going to be an expert witness for my client against another large firm and they told me they would fire me if I did so. By the way, I stood up to a six hour deposition by the offending firm and got all my clients money back. I guess that was a good reason to fire me.

It took me those five years to figure out exactly what a financial advisor should do and should not do. I learned that a financial advisor was ***NOT***:

1. A mouth piece for a firm to sell financial products.
2. Someone with the ability to know something no one else did.
3. A predictor of the future.
4. A pony for people to bet on, in order to get the highest rate of return.
5. Smarter than everyone else.
6. Capable of turning a risky investment into risk-free investment.
7. A vehicle for getting my boss a promotion.
8. Could not help the client by trying to win a sales contest.
9. Should not attempt to get rich on the back of other peoples money.

I determined that a financial advisor ***WAS*** supposed to be:

1. An expert at quantifying and managing risk.
2. An expert at creating and achieving a guaranteed income objective verses a focus on "return on investment".
3. An expert on understanding a client's retirement and financial goals.

This epiphany lead to what I call the "A to B approach." A is simply where you are today, the sum of all your assets. B isa guarenteed income that exceeds you overhead so you don't have to work.

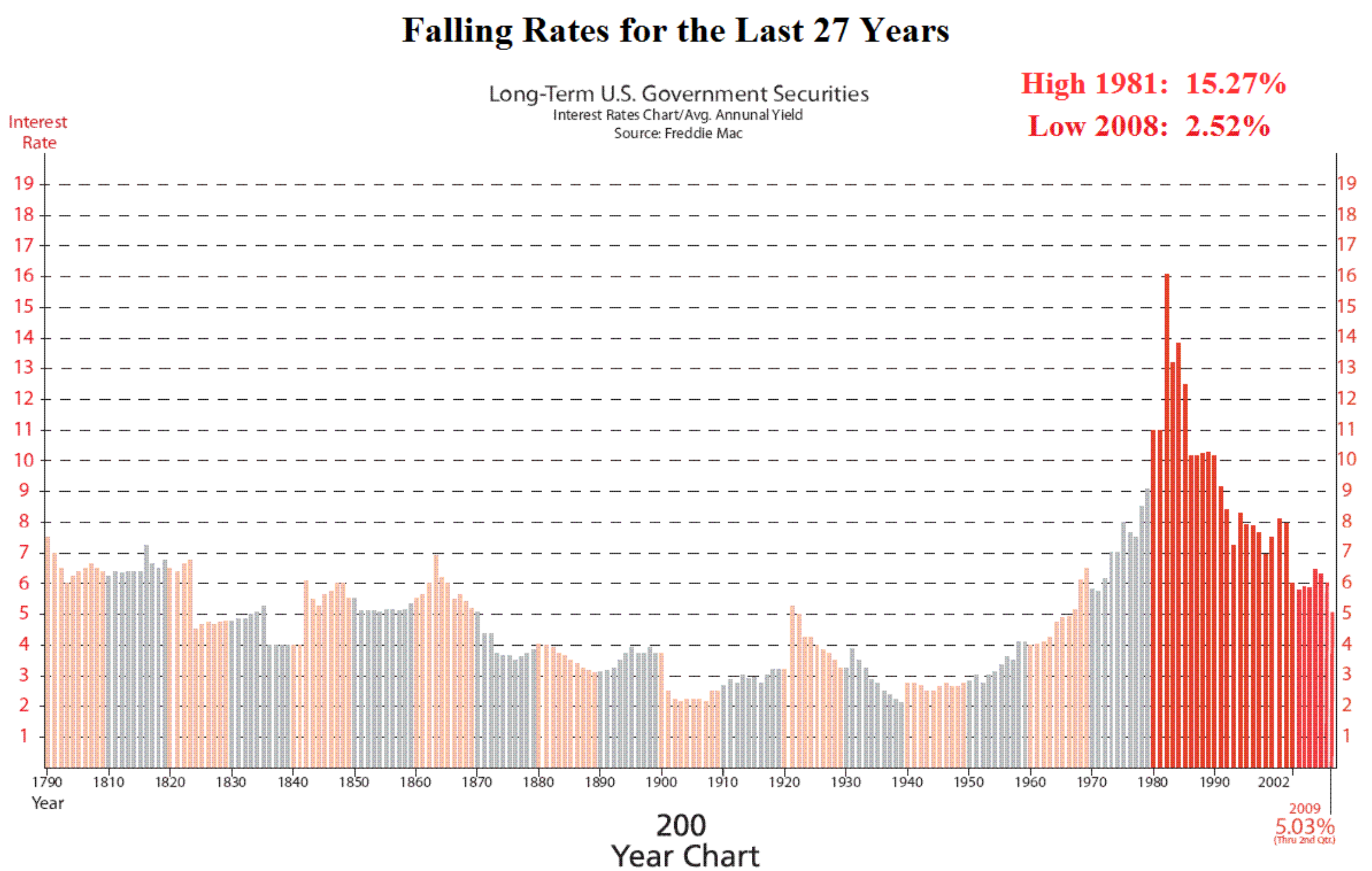
At this juncture, I want to give you the one true definition of ***financial security***:

Guaranteed income that exceeds your overhead so you don't have to work.
Let me break this down. There is only one true guarantee in the financial world: The U.S. Treasury bond. Everything else is a promise, not a guarantee. Your income must last through your retirement.
The longest guaranteed income stream available comes from the 30-year Treasury bond. It is the only asset that allows you to quantify the risk of your net worth.
This is done by owning a specific percentage of long term treasuries relative to your other assets.

Here is more proof of Wall Streets greed:

For 35 years, interest rates have been dropping. The 30-year Treasury peaked at 15 % in 1982. In 2009, it hit a low of 2.5% Now isnt it strange that you have never received the advice to lock up these high rates some rates or the potential danger of falling interest rate? Rates falling are dangerous because it means you need more money to create the same income stream as example. In 1982, $1 million invested in a 30-year Treasury would have spun off $150,000 in annual income. At the low in 2009, that same million dollars spun off $25,000 of annual income. That means at the low point in 2009, you would of needed 6 million dollars to match the income of a bond you could have bought 35 years ago.

You should have been advised about the risk of falling rates over the last 35 years.



Here is one example that Wall Street is a <u>sales organization</u>

When you walk on a car lot you know a salesman will approach you-buyer beware. However, when you walk into a financial institution you think you will get the help that you need to obtain financial security. Not likely. Wall Street is a sales organization. Your financial security is not its first priority.

I am going to illustrate this by contrasting the difference between an individual Treasury and any bond fund. You will seethis example illustrates how Wall Street targets investors comfort level and lack of understanding of a bond in order to make a sale. Financial security is the loser here.

U.S Treasury-30 year bond	**Any bond fund**
Guaranteed principal at maturity	Not guaranteed principal
Guaranteed annual cash flow	Not Guaranteed cash flow
Specific non-fluctuating annual cash flow	Not specific fluctuating cash flow.
Specific credit rating	General credit rating
No fee to manage	Fees to manage
Very low cost to buy	High fees to buy
Protection from falling rates	Minimal protection from falling rates
Deflation protection	Minimal deflation protection
Flight-to-quality asset	Minimal flight-to-quality asset.

Imagine we had two investors in 1982 with $1 million dollars each to buy bonds for income. The first investor bought a 15% 30-year treasury bond. The second investor listened to his broker and bought a high quality bond fund with a yield of 18 %. The first investor would still have their bond that had paid 15 % annually for the last 35 years while the second investor would still have their high quality bond fund, but the yield would have declined to 4 %. The first investor enjoyed a steady guaranteed stream of income; they did not suffer because interest rates fell. The second investor lived with uncertainty and less and less income every year. The first investor generated approximately a $500 transaction fee and the second investor paid up to a $40,000 load.

How is the bond fund marketed for sale?

1. You are sold virtues of having a professional manager
2. You are sold on the advantages of monthly income rather than bi-annual income from a Treasury
3. You are sold the disadvantage of a long term maturity.
4. You are sold on the virtues of diversification; as safety and
5. You are sold on the advantages of being able to switch for free to any other fund in the firms family.

When bonds are held in a fund, the manager has to sell bonds to create cash for people who want to leave the fund and buy new bonds for new investors. The fund is constantly turning over. The funds yield rises and falls with rates. The bond fund was created as a way to make money, by doing so Wall Street sabotaged investor's future.

The 30 year maturity of Treasuries was sold as a disadvantage. Why bother with a Treasury when you can use a bond fund and can come and go as you please? Two big problems: the yield of the fund fluctuates and it provides no protection from falling interest rates. If those investors who had bought bond funds had bought individual long term treasuries, Wall Street would have been denied billions of dollars of fees AND but real financial security would have been created for investors. What is wrong with that picture?

CONCLUSION: If you are going to manage risk and achieve financial security as defined by a guaranteed income that exceeds your overhead when you do not work, you must own the 30 year Treasury. If you ask all of your friends and reflect back on all of the financial advice you have every received, I would be willing to bet that no one has ever advised you of the true definition of financial security or advised you to buy a 30 year Treasury. Wall Street is not trying to get you to point B. Wall Street wants you on an endless path of growth and focus on "rate of return" so they can manage you forever. After all, your assets are the source of Wall Streets income.

All the above information should help you decide if you are managing risk correctly and whether or not you are on the path to financial security.

Thank you,
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