



Excerpt from *Missed Fortune 101* by Douglas Andrew

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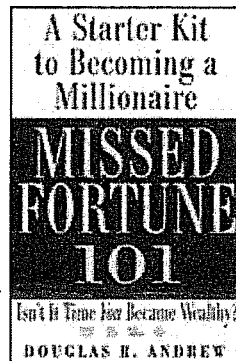
Missed Fortune 101

by *Douglas Andrew*

Chapter 1

All the Dogs Barking Up the Wrong Tree Doesn't Make It the Right One!

Why socking money away into IRAs and 401(k)s and paying extra principal on your mortgage is counterproductive



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HAVE YOU EVER WONDERED if you're on the right path? In my professional travels, I participate in conferences and conventions all over the world. During the past several years, I have traveled to Chicago every three months to meet with a group of fellow entrepreneurs in a program called The Strategic Coach, founded by Dan Sullivan. As anyone who has traveled to the Chicago area knows, O'Hare Airport is one of the busiest airports in the world and can be confusing. On the first few trips, I would retrieve my luggage and walk outside to be picked up at the bus shuttle center. I would follow the crowd from the baggage claim area outside to the ground transportation area, then across eight lanes of traffic to the shuttle center, often in freezing, windy conditions, without a coat.

One blustery cold, wet day, I followed the crowd and arrived at the shuttle center with my hair windblown and my suit sopping wet. To my surprise, I met the gentleman who had sat next to me on my flight.

His hair was in place and his suit was dry. I said, "How did you get here before me and in such great shape?"

He replied, "Oh, didn't you know there's an easier way to get here? And you stay warm and dry!" He told me about a corridor that leads people safely underground to the shuttle center, sheltered from traffic and unpleasant weather.

The next time I flew into O'Hare, I learned that the path leading to the shuttle center had always been there; I just hadn't noticed it. Now it's up to me each trip to choose the path I'm going to take: the way the crowd goes or the safer, more sheltered route.

One day I asked the hotel shuttle service why they didn't instruct people on how to reach the shuttle center by the safer, protected route. They said, "Oh, it's too hard to get people to understand, so we just tell them to follow the crowd."

The ideas presented in this book are not novel; the approaches are. With the insights you are about to gain, I hope you will choose not to always follow the crowd, but to find the best path on your journey toward financial independence.

For the first step on that journey, let's take a look at the two places most Americans accumulate the most money: our home and our retirement plan.

THE FIRST STEP

Following accepted wisdom, we set aside money in qualified retirement accounts, such as IRAs and 401(k)s, enjoying tax-deductible funding and/or tax-deferred accumulation. At the same time, we assume it's best to achieve the goal of outright home ownership and save money on mortgage interest expense by sending extra principal payments against our mortgages.

Unaware, like naïve, inexperienced drivers, we proceed down the highway of life, pursuing financial security with one foot on the brake pedal and the other foot on the gas pedal. We may eventually make it to our destination, but only after a pretty jerky ride. We wonder why a few others arrived at the station of financial independence sooner, achieving more, with a much smoother ride.

"BUT I'M DOING EVERYTHING RIGHT!"

We suddenly realize that during all of those years of earning money, we socked a portion away in investment vehicles that gave us a tax deduction on the front end, just to be hammered with taxes on the back end. At the same time, we were killing our partner, Uncle Sam, by eliminating one of the best tax deductions we have as Americans- our home mortgage interest.

During our "golden years" of retirement, we painfully come to the realization that we increased our tax liability by postponing it to a time when we no longer had significant deductions. In frustration, we complain, "But I did everything right! Everyone concerned about their retirement puts money into IRAs and 401(k)s, and I've always been taught that you should pay off your mortgage by sending extra principal payments to the mortgage company!" There is a valuable lesson a friend and mentor, Marshall Thurber, taught me: All the dogs barking up the wrong tree doesn't make it the right one!

If what you thought to be the best way to save for retirement or to pay off your mortgage turned out not to be the best way, when would you want to know? Now is the time to discover the best way to safely accumulate more money. The sooner you empower yourself with the knowledge to attain financial independence, the greater your net worth will become.

THE LURE OF IRAS AND 401(K)S

Most Americans are lured into saving for retirement with traditional qualified retirement plans, such as IRAs and 401(k)s.

They are convinced by financial advisors to contribute pre-tax dollars to 401(k) plans or place tax-deductible contributions into IRAs because of the tax advantages during the contribution and accumulation phases of their retirement planning. They seem to ignore the two most important phases-when you withdraw your money for retirement income, and when you pass away and transfer any remaining funds to your heirs. This book will help you understand how to receive tax-favored benefits during all four phases of retirement planning: the contribution, accumulation, distribution, and transfer phases.

Most of us don't want to outlive our money, and no one is getting out of here alive. When people die, they usually leave behind some money in their IRAs and 401(k)s that is transferred to their beneficiaries. Unfortunately, non-spousal heirs far too often end up with only about 28 percent of the money that was left in their parents' IRAs and 401(k)s.

Most people and their advisors feel that tax-deductible or pre-tax contributions to qualified plans such as IRAs and 401(k)s will provide the greatest retirement benefits because of tax-deferred growth. But do they?

If you were a farmer, would you rather save tax on the purchase of your seed in the springtime and pay tax on the sale of your harvest in the fall, or would you rather pay tax on the seed and sell your harvest without any tax on the gain? I would rather purchase the seed with after-tax dollars and later sell my harvest tax-free. In this book, I will teach you how to do the latter.

A Roth IRA is one way to accomplish this, but I believe it still has too many strings attached. The maximum yearly contribution that can be made by an individual was \$3,000 for tax years 2002 to 2004; from 2005 to 2008 the limit is \$4,000. Distributions may not be taken until at least five years after the first contribution is made. In addition, distributions must be taken when or after the owner reaches the age of 59½, except in the event of the owner's death or disability, or for "qualified first-time homebuyer expenses."

THE NOT-SO-ADVANTAGED TAX ADVANTAGES

One of the original IRA tenets held that deferring tax until retirement was advantageous because funds would likely be taxed at a lower rate. That is no longer axiomatic. You may well live out your retirement in the same or a higher tax bracket if you accumulate a respectable retirement nest egg. In fact, effective tax rates will likely be higher in the future. So why postpone the inevitable and increase your tax liability?

As a financial strategist and retirement specialist, when I discover how much money my first-time clients have accumulated in yet-to-be-taxed IRAs and 401(k)s, I often ask them if they are planning their retirement or Uncle Sam's.

Is postponing tax and thereby increasing the tax you will owe really the best idea? You should be aware that your *IRA, pension,*

and 401(k) benefits will probably be taxable at a higher rate at retirement.

A BETTER RETIREMENT ALTERNATIVE

In my opinion, there is a better alternative to achieve tax-free retirement income, as well as create indirect tax-favored benefits on the contribution amounts without all of the restrictions and rules.

When I contribute money to my retirement fund, there is no restriction on how much I can put in. During good years, I can contribute generously; during not-so-good years, I don't have to contribute anything. Moreover, I can withdraw money if needed without IRS penalties, and I am not obligated to put it back. As a homeowner, I also structure my retirement plan to get indirect tax deductions on my contribution amounts. Most important, my retirement funds accumulate tax-free, and I can access the funds whenever I want on a tax-free basis (including the interest or gain) without having to wait until I'm 59 1/2. If I don't use up my retirement funds before I pass away, they will blossom in value and transfer free of income tax to my heirs.

There is a means by which you can draw out your retirement free of income tax. Not only that, but there is also a means to avoid paying tax on up to 85 percent of your Social Security benefits at retirement. Are you interested in how you can accomplish this?

Through proper planning, a homeowner can utilize home equity retirement planning that may provide tax advantages during the contribution and accumulation years, and more important, you may enjoy tax-free income during your retirement years and transfer any remaining funds to your heirs tax-free. This strategy can increase your net spendable retirement income by as much as 50 percent! How is this possible? Read on.

THE TRUE COST OF EXTRA PRINCIPAL PAYMENTS

Another common misconception about the path to financial independence is that the best way to pay off a house is to make extra principal payments on your mortgage. There are various methods that people use to do this. Some homeowners use the biweekly payment plan to accelerate their mortgage payoff. Others use fifteen-year mortgages rather than thirty-year mortgages to accomplish their goal of outright home ownership. I will prove in this book that *no method of paying extra principal on your mortgage is the wisest or quickest method of accomplishing financial independence.*

A homeowner can accumulate the amount of cash needed to pay off a home just as soon or sooner by using a conservative, tax-deferred mortgage acceleration plan. The most important elements of home equity management are maintaining liquidity and safety of principal and creating the opportunity for home equity to grow in a separate side fund, where it is accessible in the event of an emergency.

It is essential to maintain control of your home equity to allow it to earn a rate of return. Home equity has no rate of return when it is trapped in the house, as I will explain. I'll also explain why your home may likely sell much more quickly and for a higher price with a high mortgage balance rather than a low mortgage balance.

Learning to manage the equity in your home wisely will allow you to utilize one of the few tax deductions that we Americans have left: our mortgage interest. *You can actually pay off a home using a thirty-year mortgage in thirteen and a half years with the same cash outlay required to pay off a fifteen-year mortgage.* And you can accomplish this by using some of Uncle Sam's money instead of your own! This book will teach you how to dramatically enhance your net worth and generate an extra million dollars or more by safely using lazy, idle dollars that are trapped in the equity of your home.

Let me reiterate and clarify why many Americans are remiss in arriving at the degree of financial independence they could otherwise obtain. While we do everything in our power to get tax deductions on our retirement contributions and investments, we simultaneously eliminate one of the few and best deductions we have: our home mortgage interest.

Hence, most Americans prepare for the future by postponing tax while getting rid of their tax deductions.

P.L.A.N. FOR TRUE WEALTH

To get where you want to go, you have to know how to get there. I've discovered that the secret to wealth accumulation is to use the best P.L.A.N.-an acronym for "Perpetual Life of Asset Nurturance." When we learn to nurture all of our assets properly, we create a new life for them that will live on into perpetuity. To understand how, we must first define "true wealth." So let's shift gears in order to view your future from a loftier perspective.

Wealth is usually associated with the accumulation of assets. When asked what their assets are, most people usually think of their house, cash, stocks, bonds, real estate, and insurance. These things constitute our *financial assets* and represent our material possessions.

But, if I were to ask what their most important assets are, most people would list their family, health, relationships, virtues, values, morals, character, unique abilities, heritage, and the future. This category represents *human assets*-that is, *people* rather than things. Another category of assets represents the *wisdom* we gain in life: our intellectual assets. Wisdom is a product of knowledge multiplied by experiences-both good and bad. Intellectual assets also include our formal education, reputation, systems, methods, skills, ideas, alliances, and traditions.

ASSETS THAT MATTER

Imagine these three categories-financial, human, and intellectual assets-on a "family balance sheet." Say you had to leave one category behind, but you could keep and transfer the others to future generations.

I have asked this question of a wide variety of individuals who have had financial net worths ranging from \$10,000 to \$2,500,000,000, and the answer is the same. They would choose to give up their financial assets.

Why? Because we can rebuild the financial assets with our human and intellectual assets. Most religions of the world believe that we come into the world possessing the human and intellectual assets to one degree or another. While we live our life, we enhance these assets.

Then when we leave this mortal existence, we take the enhanced human and intellectual assets with us to the next life.

Most people would not trade their human and intellectual assets for more money. When people spend their health trying to create more financial wealth, they usually end up spending their wealth trying to regain their health. If we trade our morals and ethics for more money, we soon become bankrupt in the human asset category. George Bernard Shaw said, "There are two sources of unhappiness in life. One is not getting what you want; the other is getting it." Money does not cause happiness or misery; but your relationship with money can.

It's unfortunate that traditional estate planning focuses on the least important category on the family balance sheet: the financial assets. Regardless of its complexity, traditional estate planning has become a process of four Ds: divide up the estate, defer the distribution, dump the financial assets on ill-prepared heirs, and eventually it dissipates. In other words, wealth is transferred without responsibility or accountability. Lee Brower, president of Empowered Wealth, LLC, states, "Traditional estate planning has done more to destroy American families than the federal estate tax could ever do!" Why?

- It encourages extraordinary consumption.
- It discourages savings.
- It takes families from "we" to "me."

Before I explain possible solutions, let's explore one final category of assets. There is an element of financial assets that is as important as the return on those assets, if not more important. That element is choice and control. There are certain financial assets over which we give up, for all practical purposes, choice and control. These assets are our civic, or social, assets. When most people think of civic assets, they usually think of taxes. Throughout the world, most governmental systems require the citizens of their country, state, and municipality to give back to society in the form of taxes. Hence, most people think of taxes as a liability; but, as Lee Brower explains, taxes are actually an

asset. For example, a road or highway-paid for by taxes-is a public asset.

In America, the government has provided ways for us to take a certain amount of control over how we allocate our social dollars. However, if we choose not to take control, the government will! One way you can regain choice and control over civic assets is to redirect some of your financial assets that would otherwise be paid in tax to charitable causes, preferably through your own family foundation. Another way is to redirect otherwise payable income tax to investments that stimulate the economy while enhancing your own net worth. This book will teach you how to redirect otherwise payable income tax to causes you support, including your retirement and financial security for your family.

THE NEED FOR THE RIGHT P.L.A.N.

How does one create a Perpetual Life of Asset Nurturance?? I urge everyone to identify the method that best meets individual needs-but beware of relying on traditional wisdom. Marshall Thurber, attorney and internationally renowned systems analyst, states that "94 percent of all failures are a result of the system." The typical system for accumulating wealth and transferring that wealth to future generations almost assures failure.

According to the Family Firm Institute of Brookline, Massachusetts, "only a little more than 3 percent of all family enterprises survive to the fourth generation and beyond." Throughout the world, financial assets have dissipated by the end of the third generation following the wealth creation. Hence the saying "shirtsleeves to shirtsleeves in three generations." Robert Frost said, "Every affluent father wishes he knew how to give his sons the hardships that made him rich." Cornelius Vanderbilt (1794-1877) was the most powerful and successful American businessman (the Bill Gates) of his time. He made his fortune in steamship lines and railroads. He helped build the nation's transportation system. Vanderbilt did not support charities, but late in life, he gave \$1 million to Central University in Nashville, Tennessee, now known as Vanderbilt University. At his death, Vanderbilt left an estate valued at \$105 million-the largest in American history up to that time. *According to Arthur T. Vanderbilt II, author of Fortune's Children: The Fall of the House of Vanderbilt, when 120 of Cornelius Vanderbilt's descendants gathered together in a reunion in 1973, there was not a millionaire among them. The wealth had dissipated. It had been transferred without responsibility or accountability. William K. Vanderbilt, grandson of Cornelius, said, "It has left me with nothing to hope for, with nothing definite to seek or strive for. Inherited wealth is a real handicap to happiness."*

In contrast, let's consider the Rothschild family-one of the few families who perpetuated their family wealth for several generations. Mayer Amschel Rothschild (1743-1812) opened a bank in Frankfurt, Germany, where he made profitable investments for the royal families of several European countries and founded a banking dynasty. He taught his five sons conservative money management by making investments that produced reasonable profits rather than aggressive returns. His

methods made him a tremendous fortune. Nathan Rothschild, the third son, became a financial agent of the English government. He stated, "It requires a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, it requires ten times as much wit to keep it."

Basically, the Rothschilds established the following system:

- They loaned their heirs money or entered into joint ventures with them.
- The loans had to be paid back to the "family bank."
- The knowledge and experiences those heirs gained had to be shared with other family members.
- The family gathered at least once a year to reaffirm its virtues and intentions, or they couldn't participate in the family bank.

Subsequently, the Rothschilds' wealth compounded and grew as it passed to future generations.

GETTING YOUR FAMILY INVESTED IN THE P.L.A.N.

Abraham Lincoln once said, "The worst thing you can do for those you love is the things they could do for themselves." To help your family become invested in your legacy of true wealth, it is important they see the value of capitalizing all four categories of assets.

Lee Brower, president of Empowered Wealth, emphasizes that the best way to capitalize an asset is to give it a new life by sharing it or giving it away. We ought to focus on the four Ps: preserve the assets, protect true wealth, perpetuate it to future generations, and empower family members with stewardship and accountability of more than just financial assets.

When we have a reservoir located in the mountains above us, it can be used as a water source and especially comes in handy during times of drought. It can also be used as a recreational resource. If we install some turbines at the base of the dam, tremendous power can be generated that gives new life to an entire city, without giving up the use of water for consumption and recreation. In much the same way, human, intellectual, financial, and civic assets can be capitalized on to give them a new life.

Since discovering this, my passion has been to assist families in identifying their stewardship to true wealth by creating systems, strategies, and structure for family and financial empowerment, with ongoing accountability, while retaining choice and control.

It would be well for families to develop and use some type of a system designed to:

- Enhance the individual health, happiness, and well-being of

each family member

- Support and encourage family leadership
- Capture family virtues, memories, and wisdom
- Protect, optimize, and empower the family's intellectual and financial capital

By now, you may be wondering why I am pursuing all these tangents on family empowerment, happiness, and human, intellectual, and civic assets. Isn't this supposed to be a book on maximizing financial assets?

It's simple. It is highly important to get a handle on values before learning how to handle and value assets. And people—including you and your family—will generally pay far more for something they perceive has the greatest value. How is value created? Just one more tangent.

CREATING VALUE-A PERSONAL STORY

Until recently our family had owned and operated a purified drinking water business in northern Utah. Drinking water in the simplest commodity form had a value of about 1 cent per eight ounces. We had approximately \$1 million of equipment at our plant that took water through a six-step purification process. When we amortized the cost of equipment through the production process, the cost of water doubled to 2 cents per eight ounces. We packaged water in a unique eightounce plastic pouch rather than a bottle, which added 2 cents to the cost.

We then packaged the pouches in convenient ten-pack tote boxes, which increased the per-unit cost to 7 cents. Four tote boxes were shipped in a corrugated box, increasing the unit cost to 8 cents. (Packaging often costs far more than the commodity.) Labor and overhead for our production plant averaged about 4 cents per unit, thus increasing the cost to 12 cents. Shipping a heavy commodity such as water from Salt Lake City to our customers on the East Coast added another 4 cents to our cost. If we marked up our price 25 percent from our cost of 16 cents, our wholesale price became 20 cents. So we sold 2 cents' worth of water for 20 cents, or ten times as much, because we had taken a commodity and converted it into a unique product.

When our unique product was sold at the grocery store, sometimes it retailed for as much as 35 to 40 cents per pouch. When it entered the convenience sector such as a travel/fuel station, it retailed for 60 to 75 cents. When my parents heard this, they exclaimed, "No way—just for a drink of water!" But hold on, I'm not finished.

A few years ago my wife and I joined a group of friends for three wonderful days in Orlando, Florida, attending the various amusement parks. It was one of the hottest months of May on record. One day we stopped three different times at a convenience cart filled with ice and shelled out \$2.50 for a

twenty-ounce bottle of chilled drinking water.

You do the math. There are 6.4 twenty-ounce portions in a gallon-6.4 times \$2.50 equals \$16 per gallon of water! As we left the park the next day, we stopped to fill our vehicles with gasoline costing us \$1.60 per gallon. Twenty-five years ago, if anyone would have told me that someday people would pay as much for a drink of water as they do for a gallon of gas, I would have laughed at them. But ten times as much? And we even discarded a remaining half bottle of warm water at the end of the day without hesitation!

Why are people willing to do this? It's because of the unique experience they are having. Authors B. Joseph Pine II and James H. Gilmore explain this concept in their book *The Experience Economy*. We value a unique product more than just the commodity. We value convenience more than a unique product. We value a unique experience more than we value convenience.

REALIZING VALUE-YOUR FUTURE STORY

There is one level that exceeds them all: a meaningful transformation. When we can experience a meaningful transformation in our life that will benefit all of our family members, we consider it of greatest value. My goal is to create a meaningful transformation in your life through the concepts, truths, and strategies contained in this book.

Most educational books are information-based. This book, on the other hand, will provide an insight-based experience for you. When a person experiences personal epiphanies, he or she is motivated to change. As you continue to read, it is my sincere desire that a meaningful transformation will take place as you learn to give new life to your human, intellectual, financial, and civic assets.

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