How To Make Sure YOUR MONEY Lasts As Long As YOU DO!

A 5% Cash Flow in a 1% Economy

ROBERT E. GRACE
JD, CLU, ChFC, CFEd®, RFC

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"To know and not to do is not to know."

Confucius

"Buying stocks or bonds is gambling. You're betting on prices - you're betting on buying them from those who don't know how much they're worth and selling them to somebody who thinks they're worth more.
That's speculation and its short term. It's influenced and driven by supply and demand, and not by the worth of those companies whose value lies underneath that stock price."

John Bogle
Founder and former CEO of the Vanguard Group
June 2009

"You can't invest your way to retirement,
you've got to save your way to retirement."

Gary Shilling, *Economist*
September 2009

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Acknowledgments

I would like to dedicate this book to all of my many clients who have been so trusting and loyal over the years, and particularly to my wife Rose. She has given me the support and the encouragement to reach the levels of success that I have in the retirement planning business. This book is written with all my love for my four children Bob, Jr., Erin, Kevin, and Heather.

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Also my acknowledgements would not be complete without recognizing the talented team of staff members at Grace Advisory Group: Tax and Retirement Specialists who consistently provide support and insight into the creative design of retirement plans that provide safety, tax reduction, increased income, and reduction or elimination of retirement planning fees for our clients.

And finally to David Callahan, Cody Foster, Derek Thompson and Damon Thompson, and all the wonderful supportive and creative team at Advisors Excel who so effectively facilitate the sharing of ideas amongst the superb advisory professionals who are members of their elite team.

Prologue

If you're like most of my clients, you've worked hard all your life. You've saved and sacrificed, and grown a sizable retirement fund as a result. Now, however, the future doesn't look so certain. Many of you have seen as much as 40% of your retirement fund disappear in a matter of months. And it's *not* because you were unlucky or uninformed. It's because you're still operating in paycheck mode, as you have most of your life, when what's required is a shift in perspective.

There are three phases of money: accumulation, preservation, and distribution. The first phase, accumulation, is what I call workday "paycheck mode." The paycheck is what puts food on your plate, clothes on your back, and gas in your tank. Taking investment risks does not affect your lifestyle during the paycheck phase. When the market goes up, your broker or advisor calls to say, "Look what a great job I did for you!" When it goes down (and it always does at some point), you call your broker who, if he takes your call, says, "I don't have any control over the market. But hang in there – it'll come back eventually."

I don't care who your financial advisor is – last time I checked, nobody had a crystal ball that works! Even if your advisor talked as though he or she could look into the future, we all know they can't. Most brokers infer that the past has some connection with the future. It's fundamental to their investment philosophy; they're constantly hawking the story of historical returns. The question I pose to you is: What connection does yesterday actually have with tomorrow? The answer is: none at all. The darling of Wall Street today probably won't be the darling tomorrow ... and it certainly won't be the darling in five years. That's the fallacy of investing in the casino.

The story your advisor or broker wanted you to believe said that the market would climb back out of that hole and continue to go up. In years past, that might have been true. But those were the years you had plenty of something that's not so abundant today if you are close to or in retirement … time.

When you've got that paycheck coming in, you can wait for the market to go back up. But now that you're retired, things are different. That workday paycheck no longer exists, and you still need cash flow. We call it your "retirement paycheck." If you maintain your investments in stocks and bonds, your money is at the whim of the market—it might go up one month and down the next. I don't know anybody who wants to eat one month and starve the next!

During our working and investment years, most of us use a process called "dollar cost averaging." This system says that if you put an equal amount of money in an investment on a very regular basis, buying some of the assets high and some low and averaging the costs in the middle, then if you sell any stocks, bonds, or mutual funds above the middle or mean price, you'll make a profit on the total portfolio. When times are good, it's not a bad investment philosophy.

However, if you try to do that on withdrawal, it's called reverse dollar cost averaging, and it works just as effectively on a negative basis. If you are pulling a fixed amount of money out of an asset that goes up and down, you are going to reduce your total account value fast. Too fast.

Once you retire, the pot of money you've spent the last forty years putting together has to last you the rest of your life. It wasn't so long ago that people retired at sixty-five and died at sixty-five and a half. They didn't need much of a plan! But today people are living well into their nineties and sometimes over age one hundred. I recently heard an expert on aging say that there are people alive today who will live to be a hundred and fifty years old. With longevity on the rise, you need a plan that absolutely contractually guarantees income for as long as you live, not just as long as the money lasts.

Income is the only important thing in retirement. It's not net worth. It's not the number at the bottom of your financial statement. It's what's coming in the front door to put food on your plate, gas in your tank, and clothes on your back—and hopefully all the additional perks of the good life you've worked so hard to enjoy in retirement.

So how do you create retirement income? By finding the right retirement professionals to help you design the best possible retirement plan, in writing, created by an experienced team, including a group of highly credentialed retirement planning specialists, CPAs, and attorneys.

How do you find these professionals? You can flip open the Yellow Pages. You can search on Google. You can talk to your friends or family. You can get free advice from your next door neighbor, which is of course the most dangerous kind of advice there is. You might have a neighbor on one side who is very intelligent—a professor or a physician. Maybe your neighbor on the other side is a plumber. Most likely, the plumber makes more money than the physician or professor! But the point is: when they give you advice on a topic that is not their main expertise, it's going to be the most expensive advice you will ever get. Beware of free advice—everyone has a bias.

Instead, find someone with the proper credentials, education, and experience. Look for designations like CFP (Certified Financial Planner), ChFC (Chartered Financial Consultant), CLU (Chartered Life Underwriter), RFC (Registered Financial Consultant), and CFEd (Certified Financial Educator). All of these designations require numerous courses involving hours of study and very difficult tests.

Also, look for people who are multi-disciplinary. Ideally, you want to find a team with people on staff from both sides of the coin: Wall Street and the fixed side (the insurance industry). They should have experience and financial training on both sides, not just cursory knowledge of one or the other. Most stock brokers will tell you they know about annuities, and most annuity salespeople will tell you they know all about stocks and bonds and mutual funds. Don't believe it. Generally speaking, each side knows very little about the other. But if you can find the rare, talented, and experienced individual who has been certified, educated, and licensed in both areas, you're more likely to get an unbiased opinion as to the proper choices for your retirement account.

At Grace Advisory Group: Tax and Retirement Specialists, we're lucky to have a team compiled of just those individuals. We truly are the best! And it's our job to figure out how best to ensure a guaranteed lifetime retirement income for you.

As you read this book, remember to keep an open mind. There are going to be some new ideas we'll be presenting that hopefully allow you to find peace of mind, security, and safety in your golden years. We'll show you strategies that allow you to do exactly what you want to do in retirement.

When asked about their financial goals, most retirees' say they would like to lower their taxes, as well as increase their income now and in the future because of inflationary needs. They want to reduce (or better yet, eliminate) any of the fees they may be paying for competent financial advice. And above all else, they want to make their money safe.

I've worked with thousands of retirees and people on the brink of retiring, and when I ask them whether they prefer risk or safety, the overwhelming majority of them choose safety and leading experts agree. The older they get, the more safety they want. When you are young, you have time to regenerate any losses that occur in risk based investing. I'm sure I don't have to tell you that the one thing we don't have as much of as we get older is that ever-elusive asset … time. What that means is that you have to change the style of investing that you do in retirement as opposed to what you did during the paycheck years.

There is no such thing as a little bit of risk or a little bit of safety. Saying, "I'm in just in a little bit of risk," is on par with saying, "I'm just a little bit pregnant"! I don't mean to offend anyone; I simply mean, you either are or you aren't. Risk is risk, and safety is safety. It's either there or it isn't.

Retirement should be about safety and it should be about guarantees. My forty-three years of experience tells me that the only reason people take risk at all is because they feel they have to—to get a competitive rate of return on their investments or their money. As we'll discuss later in the book, taking risks is not necessarily required in order to get competitive, safe, consistent returns. It's the financial version of the fable about the tortoise and the hare. The "tortoise"—a long, consistent, only going up account—will beat the volatility of ups and downs in the market every time.

Before we begin, I want to briefly share a few of the most common questions we hear from our clients.

- Is my money safe?
- What financial instruments are the best for retirement?

- How can I hang on to the money I currently have?
- Are my current investments safe?
- Am I going to have enough money to sustain me and my spouse for both of our lifetimes?
- How do I ensure I have access to cash flow during retirement?
- How can I lower my taxes and thereby keep more of my money?
- Will I have enough money to maintain my current lifestyle during my retirement?
- Will there be anything leftover for the kids?
- Will I be able to keep up with inflation?

Do any of these hit home for you? If yes, we're not surprised. If not, they should. Every American should be worrying about all of these questions, both pre- and post-retirement. These are the questions I've set out to answer in this book.

So how is it that you protect your money? What techniques are available and what should you do? In *How to Make Sure Your Money Lasts As Long As You Do!*, we'll be talking about the many ways to ensure that you never run out of money. I'll show you how to make sure you are getting a good enough return to maintain a good lifestyle—not one that is less than you had when you worked, but as good if not better.

Get ready to "Retire with Grace"!

chapter one

Now What?

They stole your future.

We all know who "they" are. Wall Street—the same people who told you, for all those years, that your money would be safe with them, that it would grow, and that if you played by the rules, you'd have all the money you needed when you needed it—for your children's education, for retirement, for that trip around the world.

You went on a trip, all right. Wall Street took you for a ride. That was your trip.

I'm not writing to you if you're a day trader, a gambler, a get-rich-quick kind of person, a penny stock lover, or someone who invests in every crazy scheme that comes on late-night infomercials. If those people lost everything, it really serves them right. That's not investing; that's gambling.

I'm not writing to the super wealthy whose lifestyle will not be affected if they lost 20% of their money in the Wall Street casino. Although, if the super wealthy aren't smart enough to control and secure the majority of their hard-earned money, I may be talking to them. There's nothing sadder than seeing wealth earned by the fruit of one's labor and expertise disappear in a risky endeavor outside one's expertise and control. And it happens all the time!

You're different. You've played by all the rules. You've worked hard all your life, scrimped and saved, lived on a budget, postponed gratification, and put money aside every month. Wall Street told you to put your money in the stock market and stay in it for the long haul, and you followed the advice of the so-called experts. You did your homework. You picked the investments for your IRA, 401(k) or 403(b) plan, or other retirement plan that made the most sense in building your retirement nest egg. You allocated your assets, you weighed risks, and you thought you were taking the prudent course.

And look where it got you. Decades of investing and doing the right thing … wiped out in just a few horrible months. Now you don't even want to open your statements.

Your retirement … gone.

Your savings … decimated.

Your trust … violated.

Your concerns and fears about the future … magnified beyond anything you could have imagined.

You were looking at retiring—maybe selling the house, taking the equity, and doing something you've always dreamed of. You fantasized about moving to Hawaii or some other dream location. Or maybe you'd just stay put, watch your grandchildren grow up, and help your kids from time to time with your money and time. Now your financial future has been shattered.

So the question arises: *Now what?* And that's the question this book seeks to answer. What do you do now? Whom do you trust? Where do you invest? How do you get made whole again? And how could this whole financial meltdown have happened in the first place?

If you want to learn how to grow your money safely, even in these turbulent, almost unprecedented economic times, I'll show you how to do so in this book. Want to get rich quick? Hit on the next hot penny stock? Ride the wave of the latest easy money scheme somebody's peddling on an infomercial at 2 a.m.? Want me to compete with the financial network's talking heads, who didn't steer you to safety several years ago, even when they sensed things were heading over a cliff? Again, if you answered "yes" to any of those questions, then I'm not your guy.

If you desire to understand what really happened, why the key investment vehicles that Wall Street put you in were doomed to failure practically from the start, and above all *what to do now*, then come along for this journey. I'll give you a philosophy of investing and a strategy for going forward that Wall Street will never tell you about because if you've got safe money, they can't steal it from you. And that's what this book is all about.

Set Realistic Financial Goals

So how did we get in this mess in the first place?

When it comes to the way money changes hands between the individual investor and brokerage houses, I imagine Jack Nicholson delivering a line from Edward Winslow's book *Blind Faith*: "Well, the broker made money and the firm made money—and two out of three ain't bad."

Let's say an average investor—we'll call him Fred—sees a full-page ad in the newspaper about some innovative strategy of investing. He calls the number or visits the website to sign up and attends the seminar. What happens next? To paraphrase William Bernstein's writing in *The Intelligent Asset Allocator,* if Fred gains some knowledge and continues to do his own research and pick his own stocks, then *he doesn't know that he doesn't know.* What's Fred not grasping? He doesn't see how Wall Street makes money on his every move. Whether Fred's stock pick goes up, down, or sideways, the Wall Street casino cashes in.

What happens if Fred gives his money to a so-called "investment professional"? Now the money is in the hands of someone, in Bernstein's words, "who indeed knows that he or she doesn't know, but whose livelihood depends on them *appearing* to know." In other words, the financial advisors at Stocks 'R' Us know enough to get you to put money with them, but their knowledge about your investment choices is severely limited; they don't have complete access to the accuracy of the information received from their analysts. And what they don't know affects you. The consequences of their actions in peddling Wall Street's constant misinformation will leave you holding the bill.

Fred, like the rest of us, is an innocent bystander who gave his money over to people who know little more than he does about investments! They know a lot about the process of *selling you* an investment, but they don't know much about the true worth of those investments, the risk level, and whether you should be buying them in the first place. So Fred, thinking he's about to take a walk down Easy Street, actually finds himself run over by an armored truck taking his money—and the money of all the other Freds of the world—to the Wall Street vault.

Finance gurus on CNBC, MSNBC, and other financial shows advised people to invest for the long run, implying that no matter how much money people lost today, they'd earn it back in the future. In January 1999, the S&P 500 Index read 1229; ten years later in 2009, it stood at 1000—an 18% decline. The numbers show that the S&P has not progressed much in the past decade. We might have another large drop ahead—we don't know. Somebody might have put their nest egg into the market a decade ago, only to see it drop as much as 40 to 50% at the bottom of the current market in early 2009. Even after the stock market improvements since March 2009, as of this writing, the general S&P 500 Stock Index is STILL 19% lower than its January 2000 level.

At the same time, CDs, fixed annuities, and US treasury bonds have proven secure—not sexy but secure. They grew at an average rate of 4% annually over the last ten years. People who held them are significantly ahead of those who did not. Ten years ago, an advisor would have said that investing in CDs, annuities, and treasury bonds was a stupid mistake. Today, a whole lot of people wish they had made that very mistake!

The strangest thing is that all this has happened before. After the crash of 1929, it took until 1954 for investors to get back to the breakeven level on the Dow Jones Industrial Average. I know that sounds hard to believe, but it's true. If your grandfather lost his savings when the market crashed in October 1929, it would have taken him twenty-five full years before his investments returned to that level of the Dow.

If you don't believe me, look at the numbers. Numbers are your friend! The Dow peaked at 384 in late September 1929. A year later, in September 1930, it had slumped to 194, a 46% drop. By September 1931, in the bear market recovery, it went back to 283—a 46% rebound. However, Grandpa was still down 26% from the market peak in September 1929. Then, in July 1932, the Dow crashed to 41 … and that's not a typo! It went all the way down to 41. Even after a five-year gain of 385% between 1932 and 1937, the market only scratched back to 194, still 50% below the September 1929 high of 384.

Does this sound eerily similar to what happened a couple of years ago? Just add a few zeroes to the Dow index number, and it's déjà vu all over again. The Dow peaked in October 2007 at 14,066. It dropped … and dropped … and dropped … until it had reached 8,000 in October 2008—a 43% decrease. By March 2009, the Dow had dropped more to 6,440, a 54% plunge from its October 2007 peak, wiping out trillions of dollars of wealth—including, very possibly, much of *your* wealth.

Are you starting to see a similar historical pattern developing? In the stock market, it's the 1930s all over again. Disaster, followed by government intervention and hype, followed by a false recovery based on nothing but wishful thinking and Wall Street hype, and followed by the reality check resulting in …

If you can't tell me what follows and you're betting your retirement future on that guess in the stock market, I would call you a gambler and your advisor a bookie! The bottom line is you can't afford to lose money. We'll get more deeply into this later on, but here's the first takeaway I want to share with you: ***A loss is much worse for you than a gain is good.***

In light of the demonstrated history of losses, how is it that Wall Street keeps getting people to invest? <u>By creating a false impression of security based on a false notion of expertise</u>, that's how. If they can make you feel safe and that they absolutely know what they're talking about, you'll hand over your cash to them. That's the secret of their success.

As an investor, you must keep an especially sharp eye out for false impressions of security. One way to do that is to watch out when financial advisors start throwing out the names of celebrities or famous investors who own the stocks or investments they're pitching. Is there substance behind the pitch, or is it just another commercial or infomercial with a celebrity endorsement? A well-known name is often thrown out to increase the credentials of a risky investment. Such is the case when advisors say in order to get someone interested that Warren Buffett is buying this stock or Bill Gates is looking to acquire this company.

There are consequences for not investigating the fundamentals behind mass fanfare for a stock. Back in the technology bubble from 1997 to 2000, some companies had zero earnings per share and no sales, but their stock was selling for $100 per share. Even an established company like Broadcom went from $9 in 1997 to over $170 at the top of the market in mid-2000. Remember when AOL ruled the Internet? Despite a number of growing threats, shares skyrocketed to over $100 in 1998.

Yet when the bubble burst, those prices plummeted… and still haven't recouped. As of 2009, companies such as AOL, which was once selling at $100 per share, have dipped down to below $20. Nobody's buying the stock now, even at that low price. Investors finally got fed up with the continued misinformation from the bookies on Wall Street. You might as well have invested at a craps table at a Vegas hotel; at least that way, they might have given you a few free drinks or a shot at the buffet for your troubles.

During this same time, the NASDAQ stock index, which is comprised mostly of technology stocks, was at 4575 in January 2000—today, after the stock market recovery from March 2009 to the time of this writing in late 2011, the NASDAQ is still down 44% from its January 2000 level. Is this the way you want to plan for your retirement?

When people talk about limits today, there's often a negative connotation. But when I use the word *limits*, I don't mean it in a negative way. My definition of limit has to do with "comfort zone" or "what you can handle comfortably and effectively in life."

The reason people get scammed and make mistakes, such as choosing the wrong major in college or going after the wrong career, is that they fail to recognize their limits. Maybe they lacked someone in their lives who would help set parameters for them. In other words, no one sat down and helped them outline their beliefs, goals, passions, and limits—no one gave them that reality check, if you will.

Wall Street really likes to tell people to look at where they should be compared with other successful investors as if it were possible to obtain everything imaginable simply by playing a game of compare and contrast. This message is completely unrealistic; yet people keep buying into it. (Remember when everyone was so excited about the "tech" craze of the early 2000's? The NASDAQ stock index, which is comprised mostly of technology stocks, was at 4575 in January 2000 … today, after the stock market recovery from March 2009 to the time of this writing in late 2011, the NASDAQ is still down 44% from its January 2000 level. Is this the way you want to plan for your retirement?

The truth is that different skill levels and economic backgrounds create better opportunities and career choices for some people than for others, but a lot of people want to believe that all they have to do to change their fortune is dream big. I believe in big dreams … but in order to achieve them, you have to "wake up" from the nightmare created by Wall Street. It's time to start working on *your* dreams—not theirs!

That's why it's so important to keep an eye on your realistic limits. When a financial advisor comes along and tells you that he can make more money for you than what you are making right now, you have to ask realistic questions about what happens if he doesn't. When you walk into a Vegas casino, you should know how much you're willing, or how much you can afford, to lose. The same is true when you enter the Wall Street casino. You have to examine who you are, what you make, and what your goals are. Is it really possible to get an annual return of 10 to 20% on your investments over a ten to twenty-year period?

In my role as financial advisor, I often meet prospective clients who say, "My current broker is promising me annual returns of 10%. Can you match that?" I tell them, "No, but I'll give you my best long shot in the fifth race at the Florida Derby!" In all seriousness, I would be honest and give an answer based on reality. There's nothing real about getting 10% a year risk-free. The brokers may be getting great returns on your money—but you won't.

The problem with many advisors is that they do not set parameters for their clients. They can't constantly put more and more money in the market and hope that the market will comply; they need to know when enough is enough. Investors don't need to know earnings per share; they need to know their own level of contentment. How much do you really need to be happy? Do you need all the money in the world? And are you willing to risk everything you already have to get that extra piece of the pie? Or do you have enough right now to live decently with enough in your investment portfolio so you can retire and live decently later on?

Investors need to remember that all objects of hope should be based on some sort of substantiated fact. That requires asking questions like the following: What is my current budget? How will I pay off college loans for my kids? Where do I want to live when I retire? How do I worry less about what is going to come later in life and enjoy life now so that when I get to my goals, my spouse is there with me instead of her divorce attorney?

Parameters need to be set. And if your financial advisor hasn't set parameters, find a new one.

I'm not necessarily saying that your advisor or broker is crooked. Plenty of them are upstanding men and women. They just might not have the knowledge required to make the best decisions with your money. It's like a dentist. You go to the same dentist for years, and they do a good job cleaning, drilling, and filling. But all of a sudden you need an implant. You ask your dentist, "Do you do implants?"

"Well," they say, "I can. I don't do a lot of them—mainly I do crowns and fillings. But sure, I'll give it a whirl."

Do you want that person doing your implant? Probably not! You want to go to the specialist, the guy or gal who all they do is implants. Don't you want them doing yours?

It's the same with your finances. If you have the opportunity to go to a specialist, why would you choose anything but?

Avoid Financial Fallout

When betting on sports and on the floor of the New York Stock Exchange, knowledge is power. There's a huge imbalance of power in the financial markets. To put it simply, they have all the knowledge … and all the power

… and you have none. They never tell you that. Why should they?

Every time Fred, or anyone else, signs an agreement on the application to create a brokerage account, there's one sentence in the fine print that Fred doesn't notice and that his broker will *never* highlight. It's a disclaimer that can be summarized as follows: "We want to bring to your attention that there is a *potential conflict of interest* in our financial advice to you. We help raise money, do the initial public offerings, and underwrite for the very companies in which we are advising you to invest. We are going to try to not let this relationship sway us, but there is no guarantee."

Every single investor with every single brokerage house signs an application that contains a clause like this. Every single investor—all the Freds of the world—are unknowingly giving their stockbroker *permission* to allow a possible conflict of interest that could steal their future dreams.

So whose interest is most important to the brokerage house? Is it Fred's? Fred may have an account with $50,000, or even $500,000, in it. That's a lot of money to Fred, but it's a drop in the bucket compared to the fees and discounted stock prices that the brokerage houses receive from the companies they are pimping. (And I use that word intentionally, by the way.) Do you think they'll ever reveal to Fred any negative information about the companies whose stocks they are recommending? Of course not! That's because the broker-salesman doesn't know the entire story.

For a Wall Street brokerage house, the corporate finance entities typically come first, and the retail brokerage division comes second in fees generated and fortunes created for their executives. In essence, the executives of the brokerage houses and their corporate clients are reaping windfalls while the public is getting advice that is not always in its best financial interest. Guess who's left holding the bag?

Indeed, executives of major corporations are making incredibly large sums of money that you never hear about. Maybe you're old enough to remember the early 1980s when Chrysler was on the verge of bankruptcy, and the company stock was down to just $3 per share. The head of Chrysler at the time, Lee Iacocca, went to Congress and basically said: "Give us a billion dollars in loan guarantees so that we can function, or I'm going to bankrupt the company and you will have to pay $1.5 billion for our pension plan." So Congress made what seemed like the prudent decision at the time and bailed out Chrysler for $1 billion.

I know Iacocca is considered one of the great American financial heroes, but unfortunately, there's more to the story. He didn't just save jobs—he made himself a fortune. Iacocca accepted a salary, after the government bailout, of $1 per year. But Iacocca also owned stock options as the top Chrysler executive, probably in the $3 to $5 per share range. After the bailout—after taxpayers footed the bill for Chrysler's recovery—the price of Chrysler's stock soared to $48 a share within seven years. Iacocca made millions and millions of dollars by exercising his stock options, a fact that the American people never knew about. Did taxpayers share in that windfall? Of course not! Iacocca was a hero, all right—to his accountant, his family, and his estate.

Ever since, CEOs have looked at the Iacocca story and asked one simple question: "Where's mine?" And the pay of top executives has skyrocketed ever since to levels that are truly obscene. I don't mind seeing people being highly compensated for a job well done. But do these guys really deserve hundreds of millions of dollars—even as they drive their companies into the ground? I certainly don't think so. And guess who's paying for all that salary? Look in the mirror, Mr. or Ms. Taxpayer. They get rich because of your willingness to trust them with your money, and they don't even send you thank you notes. Imagine how cramped their hands would get having to write to millions of Freds all over the country—indeed, all over the world—thanking you for your tax contributions to their astonishing wealth.

The story of Lee Iacocca and the Chrysler bailout is relevant today more than ever. Newly hired executives have been approved by the government to run banks and Wall Street firms that are just coming out of bankruptcy due to the economic collapse. Fearing public outrage, the compensation of these new executives is closely monitored for excess. While these executives are forbidden to get large salaries and bonuses, it does seem to be more acceptable for them to participate in stock options, if they perform well with taxpayer funds. Believe me—their employers will have no problem skirting regulations and paying them the big bucks.

The executives own company stock as part of their compensation, and they are able to get stock options while the prices are very low. However, the public doesn't know when and how the executives are going to get extra money because the ones at the top have access to information that you don't. They know just when to pull the trigger on their stock options because they know when bad news is coming that will depress the price of the stock. It's legalized insider trading. And the average investors—the Freds of the world—are stuck at the wrong end of the un-level playing field. When you buy a stock (from those in the know), you're guessing. When they sell a stock (to you), they're acting out of solid knowledge that you don't have.

Unless you know what's going on inside the Wall Street firms, it's next to impossible to make as much money as the executives make. The people who make the most money betting the horses are those who got a tip from a jockey or a trainer. By analogy, the people who do well on Wall Street have access to information that the rest of the public does not have. The executives of the corporations and brokerage houses make all the money. The public receives a small piece of the pie after all the management, administrative, and other fees they charge.

There's a perception that the executives of the bailed-out institutions are being paid low salaries, but the public has no idea to what extent these seeming "heroes" are excessively compensated with stock options. If the public knew, there would be more outrage than the executives could handle. So, naturally, the public will never know.

Something else I find outrageous is the way the market *still* tells the average Joe that he can make millions overnight just by investing his life savings in the market. There's an ongoing bombardment of such propaganda as if the market meltdown had never happened. How dumb do they really think we are? For example, you might remember an ad featuring a taxi driver who is also a successful day trader; he only drives a taxi because he owns the taxi company. Then there was the ad showing a wine connoisseur who invested her money in a 401(k) and somehow made enough to buy her own vineyard. The only way she could have made that kind of money would be if she'd invested with Bernie Madoff … and somehow got out before he went bust.

As a result of those ads, people often begin to think that investing is always glamorous and lucrative, and they *don't* think about the risks involved. The message is always, "Look how easy it is to be a stock trader! Even your grocer is making a fortune." The same appeal to greed attracts people to Las Vegas with the same results: You'll always hear the boasts about how much people made, but people never tell the truth about how much money they lost.

People like to feel important, and that sense of self-importance is fueled by their ability to say "*my* advisor" or "*my* attorney" or "*my* broker." So even when their broker is losing money, they'll still praise him and say something like, "He promises me that I'll recover my losses by making me more than 10% a year going forward." Wall Street is trying to provide an environment where people think that easy money can be made no matter the circumstance. They'll do anything to perpetuate the idea that such a place actually exists, until all the people they've conned are practically lying in the gutter, dead broke.

It was no different in real estate. Anyone who has worked in real estate or has owned a house knows that approximately every ten or twelve years, we cycle between bull and bear markets, meaning there's always a chance that house prices will fall. Yet, due to the fear of missing out on the market or the desire to make more money, people refinanced their houses and threw their equity into either the over-priced stock market or into overinflated real estate. Then they refinanced their houses again or sold them in an attempt to make more money with another stock or real estate strategy.

But, as we all know, trees don't grow to the sky. After a decade or so of easy money, some people lost everything they made earlier. How? By buying a house at the top of the market with easy financing from the banks before the downturn came. Now, after the housing market has collapsed, some can't refinance the house they have and some can't buy the same house they sold a decade ago under the new, higher qualification standards. Others can't tap the equity in their homes because banks won't qualify them for home equity lines of credit. Only in retrospect, people ask, "Why didn't anyone point out that there was a major possibility the real estate market would go bust after seeing house prices triple in the past ten years?"

It's a great question. Why didn't anybody try to stop the music? None of the talking heads on MSNBC or CNBC stepped up to say, "Now is the time to be safe and get out of the market" or "It's time to stop playing the real estate game in the midst of a bubble." Why? Because *these networks are funded by Wall Street firms*. Who advertises on them? The Wall Street investment houses. It's a simple case of "whose bread I eat, his song I sing." So much for "impartial" investment advisors. On these networks, the on-air "talents" do nothing more than promote themselves, their services, books, and magazines, or whatever else they have to offer. No one sells anything in a bull market by telling people to get out of the market. And no one wants to hear negative news that would hurt their investment portfolios.

Nobody paid attention to the fact that from 2005 to 2007, many people who couldn't have qualified in the past under prudent underwriting standards were suddenly able to buy a half-million dollar house in a heartbeat with nothing more than a pulse and a false Social Security number. The banks allowed these purchases, and the executives on Wall Street demanded them. Everybody knew. The job of a mortgage portfolio professional in a bank is to package those loans, get them to Wall Street, let others peddle them off to somebody else, and continue the process. Yet no one spoke out about the outrageous activities they witnessed in the markets because they would have lost their jobs. The media "covering" Wall Street was really just *covering up* for Wall Street. Fear and greed ruled once again—the old familiar culprits.

Some people have finally gotten fed up. One of the bestselling financial gurus who for years championed the strategy of the "little guy" investing in stocks has now become a spokeswoman for the FDIC, an organization charged with guaranteeing bank safety. But before her involvement with the FDIC, this woman told investors to stay in the market for the long run no matter what or they wouldn't be able to retire. My response to her is simply to pick one side or the other. It's a choice between gambling and safety. And only now are you telling all those millions of "little guys" you advised to gamble their hard-earned dollars on the stock market to aim for safety and security. Thanks a lot!

The truth is that Wall Street was *never* on your side, even when it was making a fortune off of you. What's mindboggling for me is the fact that many Wall Street firms do not offer adequate downside protection plans for their clients. My stockbroker friends have told me about a strategy that the wealthy clients used for years: If you had a lot of money in the market, you always employed *stock protection options*. For example, you would pay the option premium of a strategy that allowed your broker to sell your stocks if the prices fell below a certain level. As a result, you wouldn't lose beyond 12 to 15% of your investments. Why weren't Mom-and-Pop investors—the little guys—offered this same protection? Probably because their brokers never wanted to raise the ugly possibility that *stocks could go down*.

Over and over again, we've witnessed the irresponsibility that corporate executives display toward shareholders, the public, and regulators. The executives must think that they are above the law because they've gotten away with robbery for so long. What does trust and integrity mean when we see AIG insurance executives spending thousands of taxpayer dollars partying away at the St. Regis Resort in California? What triggered the party? Why the news of AIG's bailout with hundreds of billions of dollars of taxpayer money!

We also have the example of GM and Chrysler executives flying separately in their private jets to plead poverty before Congress when their corporations were on the verge of bankruptcy. How do we define trust when Bernard Madoff, the financier who people and institutions in the top ranks of our society trusted, cheated his investors out of tens of billions of dollars? The SEC was repeatedly tipped that there were major issues with Madoff concerning his investment strategies … but why wasn't a thorough investigation performed?

The reason might have been that there is indeed a good-old-boy network operating on Wall Street. After all, Madoff had a solid reputation as the former chairman of NASDAQ, which meant that he'd had past dealings with the regulatory agencies of Wall Street.

It's no wonder people fell over themselves to invest with Madoff even though insiders on Wall Street and in the government had solid information that he was running a massive scam … and that he had been doing so for years. How else was it possible for him to show 15% annual gains at times when the market was down as much as 40%? But you didn't have to be a friend of Bernie's to get burned. All you had to have was a few extra dollars in your bank account … and a dream.

If we want to dig ourselves out of the ditch we're in and ensure that something like this doesn't happen again, then we need to stop giving over our financial futures to a system based on imperfect knowledge. The brokerage house knows all but doesn't tell all; the investor knows little but hopes for the best. It's like Lucy pulling the football away from Charlie Brown. You'd think that kid would wise up after a while. He doesn't, and as investors, neither do we.

One of my friends often tells me, "I don't want to open the statement from my broker. I don't want to know. My broker told me not to stress out and that the money is going to come back in the long run. I'm not worried." Then my friend always turns to me and asks, "Are you worried?"

I *am* worried! Yes, I am. I am worried about investors not knowing what to do next. I know that deep down my friend is worried too. In order to eliminate the stress, we need to understand the fundamental principles of investing for ourselves, so that we can start controlling our own assets. Our money can only be considered safe money if we know where it is today and where it will be tomorrow. In this book, I want to show you how to keep your money safe.

We as investors have abdicated our responsibility for our finances to others who might not know the basic concepts necessary to do what is best with those finances. The basic concepts are *knowledge, understanding,* and *control*. These concepts are not applied by investors because they don't know, don't understand, or don't control what's going on with their finances. Furthermore, we don't tend to treat our advisors as partners when we should do so. One of the reasons might be intimidation: We're afraid to tell the professionals what to do because we hire them to tell *us* what to do. We say, "Here is the money and I trust you." Things should not be that way. We need to pick our advisors based on how they have protected their clients over the last ten to twenty years …

instead of letting them have free reign over our money in the Wall Street casino.

As you read *How to Make Sure Your Money Lasts As Long As You Do!*, I'd like to assist you with your finances by helping you set proper parameters for your financial life. Anyone can develop his or her own strategy of how to handle money by understanding their own core values and what is important to them. A solid future sits on a three-legged stool: finances, relationships, and your health. Take out any one of those legs and the stool will collapse. Your relationships and your health are your business. Your financial success is my responsibility.

I want you to develop a customized strategy unique to your goals and your hopes rather than overloading you with information that does nothing but paralyze your decision-making process. Knowledge is not the issue here. Today thanks to the information explosion on the Internet, you as a solo investor have as many tools to gain knowledge about investments as any stockbroker has. It's all about how you use that information!

Anyone can follow my advice, no matter his or her socioeconomic background. Whether you or your parents went to Yale or jail, this approach will work for you. My dream for you is that you be content, no matter what your current situation. If you can learn to be content with where you are at this time in your life, your finances, your relationships, and your health will do nothing but flourish. Whether you work for the government, in education, law enforcement, the medical field, or in the private sector, I can help you. Together, we'll figure out an answer to that puzzling question, "Now what?"

But first, let me introduce myself. My name is Bob Grace, and I've had over forty-three years of experience in providing estate, retirement, and tax planning for individuals. It is my desire that, as you read this book, you can draw from that experience to create a happier, safer retirement … for *you*.