Table of Contents

Preface 6

Prologue 8

Introduction 15

Chapter 1 **Outlook For Retirement**
- Can I Retire or Stay Retired. 19
- History and Types of IRAs and Retirement Accounts 21

Chapter 2 **Investment World Truths**
- Three Different Parts to Your Financial Life 25
- Investment Company Three Rules 26
- The Two Investment Worlds 28
- The Third Investment World 31
- Market and Common Myths 33
- The Hands in Your Cookie Jar 43
- Highlights and Additional Information 53

Chapter 3 **The Road You Are On**
- The Yo-Yo Economy 54
- Where is The Economy Going 60
- Where are Taxes Going 74
- The IRS's Huge Mortgage on Your Account 83
- The Tax Man Always Wins- Inflation Tax & Phantom Tax 83
- Retirees are Paying Higher Taxes Than Those Still Working 86
- Surviving Spouses - the Tax Nightmare 90
- Lower Taxes Now 91
- Highlights and Additional Information 92

Chapter 4 **Average Returns Can Wipe You Out**
- Stocks For The Long Haul: The Academic Studies 93
- Why Average Does Not Mean What You Think 101
- Dollar Cost Averaging Can Wipe You Out 107
- Why the Top Professional Managers Cannot Beat the Indexes 119
- Investors Assume All The Risk But Little Returns 123
- What Percentage Return is Needed to Recover From a Loss 125
- Why Costs Matter 126
- Highlights and Additional Information 133

Chapter 5 **The 7 ½ Retirement Planning Traps**
- #1 Failure to Protect With Guaranteed Principal Investments 134
- #2 Not Keeping Up With Tax and Other Changes 134
- #3 Failure to Update Your Foundation Guide 136
- #4 Not Understanding How Things Pass to Family 136
- #5 Failure to Protect Against Creditors, Predators and Inflation 136
- #6 Not Utilizing The Account's Full Potential 137
- #7 Procrastination 138
- #7 ½ Assuming Everything is Taken Care Of 138
- Great Grandfather's Story 139

Chapter 6 **Unlock The Retirement Account's Hidden Power**
- Why You Must Get Two Dollars in Value For Every One Dollar 140
- Wealth Planning Strategies
  #1 Use Guaranteed Income Riders 140
  #2 Using Life Insurance as a Roth 141
  #3 Life and Annuity Riders to Fund LTC Costs 141
  #4 Roth 142
  #5 Stretch IRA 146
  #6 Bonus Capitalization 153
  #7 IRA Rescue Program 153
  #8 Income Scheduling 154
  #9 Capital Transfer 155
  #10 Total Asset Deployment 155
  #11 Strategic IRA Rollout 157
  #12 IRA Trust 157
  #13 Take Advantage of Market Conditions 157
  #14 Old Age Nest Egg 158
  #15 The Most Important One 158

Chapter 7 **The Critical Road Map / Family Planning Guide**
- How Things Pass 159
- Why Proper Legal Documents are Key 161
- Why Everyone Needs a RAW 162
- The Road Map 163
- Flowing Benefit Strategy Adds Flexibility 164
- Special Considerations 165
- Shameless Plug-The Survivors Guide 166

Chapter 8 **Knowing for Sure**
- How to Plan for an Up, Down, Sideways or Any Economy 167

- Pensions are Safe 170
- No One is Watching the Store 171
- Financial Advisors vs. Expert De-accumulation Advisors 184
- Quiz Your Advisor and Worksheet 188
- The Tough Questions No Advisor Wants You To Ask 189
- The Fourth Advisor is Unique and Different 198

Chapter 9 **The Hybrid-The Power of Two Engines**
- Why Two Engines Are So Important 200
- Some Speculation-The Hybrid and The Great Depression 202
- The Road to Financial Success- Quit Reading 204
- How Can You Start to Protect Yourself- First Get The Facts 206
- Liquidity and Safety 213
- Four Truths for The Hybrid 216
- Reduced Complexity and Peace of Mind 218
- Watch Out for The Variable Annuity 218
- Get in The Life Boat Now 219

Chapter 10 **Avoiding the Gap**
- Understanding the Gap 220
- The Steps 221
- Your Questions- Put Them Through the Steps 223
- Avoiding The Herd 224
- Still Not Out of The Woods 225
- The Second Set of Eyes 226

Chapter 11 **A Retirement Spending Plan That Works**
- It is Time to Plan 228
- Myths Revealed 229
- Long Term Heath Care Often Overlooked 231
- Start Planning Today 232
- How to Maximize Your Social Security Checks 232

Chapter 12 **The Distributions Tables**
- Overview 239
- Beneficiary Distribution Table 240
- Uniform Distribution Table 242
- Third Distribution Table Spouse 10 yrs. younger 244
- Test Your IRA Knowledge 245

Index 252
Bibliography 255

Preface

Today, maximizing wealth and creating financial independence requires some art, some science, but mostly common sense. To be successful, you must use a variety of skills in planning the outcome, implementing the plan and controlling the desired results. Coordinating these three steps is an ongoing and ever-changing process.

Many of the barriers we face today are caused by uncoordinated and non-multiplier plans, which are loaded with opinions. This in turn leads to confusion and an uncontrolled situation. Let's face it; most planning done today by professional planners follows an uncoordinated and non-integrated path. The proof that it does not work is clear by the repeat of the 2002 and 2003 market losses in 2008. Following this planning does however create tremendous wealth; unfortunately, mostly for the financial institutions and the government. Because many of these same institutions are making an insane profit, it becomes difficult to get to the truth. Even after many banks received government bailouts, they still paid billions in bonuses with at least 5,000 people getting one million dollars (WSJ 7-31-09). It is time we leveled the playing field and recaptured much of this wealth for our use.

Listening to the financial pundits today would have us believe that to increase wealth, you have to take risks. Because most people are averse to risk, they use diversification, asset allocation and computer modeling as a method of reducing risk. However, this could not be further from the truth and this lie has confused many people. Fact: it is very possible to cut risk and taxes while creating more wealth and still maintaining control. This is not hard to do. Much of the information is available today. Yet the experts would have you believe otherwise. To remove the confusion and uncover the truth, one must understand the three basic rules of financial institutions. It is because of these rules that they have such a firm grip on our money. (Discussed on page 18)

We live in a complex world that constantly changes and most of us lack the time to properly research our choices. With all the financial institutions competing for our money, it becomes difficult to separate fact from fiction. To make matters worse, even the media can be blamed for much of the misinformation and in many cases, down right false information. The worst offender is probably the federal government. They perpetuate the problem by changing the rules and making it impossible to stay on top of them. All of these things work against us and keep us from having financial peace of mind. This peace of mind comes from knowing you are doing the best job possible, while uncertainties are minimized. Many of us are sitting on a vast wealth-creating machine, the IRA and its well-oiled machine cousin, the Roth. Yet many are unaware of the huge potential these accounts offer.

Learning all you can and how to maximize your money (money multiplier) is important, for we need to get the most value from our retirement savings. Once we succeed, there will be more left over for our families to use without sacrifices today.

Today we face tremendous challenges, many of which could not have been foreseen a few short years ago. Many retirees are losing their health benefits. Companies with traditional pension plans, the backbone of the American worker's security, are now disbanding or freezing their plans. This retirement security is becoming a broken promise. The failure of 401(k) plans to replace retirement benefits and the market's brutal thrashings, have for many, been a significant loss. This loss alone will have a crippling effect on future generations, including many of us "boomers". Coupled with the rising cost of quality health care, many people will truly experience a reduced lifestyle in retirement. It is imperative now to maximize what you have today, so the future will not be so bleak.

The overall economy is weak and will not improve as much as we would like. The trillions spent on the Iraq/Afghanistan crisis, the looming shortfalls with Medicare, Social Security, the government bailouts, the debt and the deficit will haunt us for generations. We no longer have the luxury of waiting - we must work efficiently to maximize our wealth potential for our families now!

Future generations will not see the many benefits that current retirees enjoy (good pensions and a 20-year run up in the stock market). It is our responsibility to make sure we are doing the best we can to take advantage of the current laws to multiply our dollars and to understand the IRS rules to cut taxes and allow for the proper (tax efficient) transfer of our assets to our families. Minimizing taxes and applying the money multiplier (maximizing benefits while allowing for flexibility) must become our new concerns. It is ironic that the benefits of reducing taxes, increasing wealth and flexibility are within the grasp of all of us – yet sadly missed. With minimal effort and quite often no cost, we can do great things. Then why is it so difficult? It has to be that way. There are very powerful forces that make a lot of money keeping things the way they are (the status quo). There is a chance for those that want to see the truth to greatly improve their situation and create a legacy. I have learned I cannot be all things to all people, but I can be all things to some people. Therefore, it is with great expectation that this book was written. It will allow you to choose another road, one that will lead to financial security for generations to come. You can achieve true peace of mind.

Thank you,   Joseph Zingone

Prologue

"If all economists were laid end to end, they would not reach a conclusion". "The moment we want to believe something, we suddenly see all the arguments for it, and become blind to the arguments against it." - George Bernard Shaw *dramatist & socialist (1856 - 1950)*

Let's set the story straight. We cannot grow, tax or cut benefits as a way out of our economic worries. Here is why: relying on taxes alone would raise them close to 80% for individuals and corporations. Cutting spending (excluding SS and Medicare and defense spending) would sustain about a 65% reduction in services. Sustained higher GDP growth and increased productivity it not an option either as individual income is down 4% since 2000. A combination of all three is the only answer.

2010 deficit was about $1.3 trillion this will be added to our large debt. These high debt levels threaten our prosperity and security. The interest payments alone will be staggering in the coming years. If spending continues at current levels, the debt will balloon to 24 trillion in a decade. If you ramp up some spending cuts and tax increases, the debt will be lower- not by much. It will be safe to say somewhere between the 24 and 18 trillion will be a close debt estimate. Please note even with favorable assumptions and deficit-reduction measures the debt will still grow from today's numbers.

You must understand that when we stimulate our economy through debt financed consumption our standard of living in the future will be lower. This happens because we have to pay back the debt and pay the interest. On the contrary when we stimulate our economy through investment, our future output will be higher and we should be able to pay the interest and reduce the debt.

Let's get Americans working. Here is the problem. In any given year, about 1.5 million new entrants join the labor force. In the past there have always been new jobs created. Now we face a new challenge since the end of *2007,* we have lost 8 million jobs. Now include the new entrants and the jobs deficit is about 12 million.

It is difficult to achieve the goal of full employment which we need so desperately. With the labor force growing at its normal pace and productivity growing at the normal rate of *2* to 3 percent, unemployment <u>will not</u> decrease. To <u>stop the job losses</u> our GDP has to grow by 3 to 4 percent. To reduce unemployment from the high levels the economy needs to grow *faster* than that baseline. For a point of reference true growth in *'09* and *'10,* even with the stimulus, was less than 1.5 percent, so we have a big shortfall.

The unemployment rate in 10/2009 was 10.2 percent. However, the true weaknesses in the labor force is somewhat hidden. Remember the official unemployment rate does not include the millions who had dropped out of the labor force. Many became too discouraged even to keep looking (if you are not looking for a job, then you are not called unemployed.) also not included is the millions who had to accept part-time employment because they could not get a full-time job. A broader measure of unemployment that includes these that want full time but only get part-time and discouraged workers had soared to 17.5 percent by October 2009. Each year we add another 2 million workers to the labor force. This is not a good situation.

How did thing get this bad? Well it is politics as usual (no I am not talking about Democrats or Republicans). It is the good 'ol boy's network.

One would think that the bankers who got who got this country into a mess should have paid for their mistakes instead they walked away will billions. The banks were not the only firms that had to be bailed out. GM and Chrysler became *wards of the Feds.* Out of fear of a cascade effect rippling through the country: suppliers would go bankrupt, unemployment would soar, and the economic downturn would worsen. What they did not so clearly tell us it would be the end of capitalism as we know it.

President Bush kept the companies going for a short while. On the condition, that they develop a viable survival plan. That sounded like a good idea. The new administration created a clear double standard: *contracts for AIG executives were not to be touched, but wage contracts for workers in the firms receiving help had to be renegotiated.* Hourly workers who had done nothing wrong would have to take a pay cut, but not the million-dollar-plus *rocket scientists, AKA crooks,* who almost collapsed the world.

The investment banks and the rating agencies conveniently never focused on the possibility of a downturn. They had no incentive to be prudent and continued to rip off the public. They became the beneficiaries of a moral hazard and created the win/win for themselves by following the "Make hay while the sun shines and when the clouds come - the Feds will provide the sunshine" rescue.

The models they used were flawed in so many ways. As you will learn in this book the "once-in-a-lifetime" events were happening every decade.` According to the standard models, the kind of stock market crash that occurred on October '87 could have occurred only one in every 20 billion years. Yet another once in-a-lifetime event happened just ten years later as part of the financial crisis of *1997-98,* collapsing the trillion-dollar hedge fund Long-Term Capital Management. An interested fact the company was founded by Myron Scholes

and Robert Merton, both had just received a Nobel Prize for their work in valuing options. Evidently, financial markets do not learn, or the people running the models fail even to glimpse at history. Why would such a simple task as looking at the recent past be overlooked. Unfortunately, it was too inconvenient and interfered with profits. Had they done so, they would have seen that bubbles burst and crises happen regularly. Hegel was right when he said, "what we learn from history is that man can never learn anything from history". It is not surprising that many economists did not see the storm brewing and rather believed that the market will correct itself.

Regulators and investors were asleep at the switch as well and outsourced their responsibility to the ratings agencies. Regulators are supposed to assess whether banks or pension funds have undertaken excess risk, putting in jeopardy their ability to meet their obligations. People who run investment vehicles have a fiduciary responsibility to the people who place money with them. But both groups allowed the rating agencies, in effect, to make judgments for them. They all were too busy raking in big "illicit" profits to care.

Most banks forgot they should be at least honest. And not prey on the poorest and the most vulnerable in society. They were overcome with greed, and all the rules went out the window. Even more remarkable, efforts to deregulate banking continues. The Sarbanes-Oxley law, which was passed in the aftermath of the Enron scandal to ensure better corporate governance and investor protections, has been critically weakened. The financial industry pays very well and attracts the very smart. So whatever regulations are imposed, they will figure out ways to circumvent them. Furthermore, executives find ways to get paid well even when the firm flounders. There is little relationship between pay and performance, a fact that was highlighted when executives at companies with record losses got multimillion dollar bonuses. Being creative, some companies even changed the name of the *performance bonuses* to *retention bonuses*. Fact, they make lots of money, regardless if performance is good or poor.'

Performance pay sounds like a good idea but it has been tried before and it was abandoned long ago. When people are paid on the basis of *a piece rate*, almost always they produce the shoddiest products they can get away with. They are being paid on the basis of <u>quantity</u>, <u>not quality</u>. This phenomenon occurs throughout the financial services industry and hurts us every day. The mortgage industry which was at heart of the current crisis is a perfect example of quantity pay. They were paid handsomely and produced as many loans as they could. Even knowing that many of the loans <u>could not</u> be paid back- they continued. With all those bad mortgages, the investment banks produced as many complex products based on the mortgages as they could sell. Why? Because they make lots of money doing so.

This quantity problem is rampant with the brokerage industry as well. Brokers get paid on selling you things and make tons of money whether you win or lose at your investments. Stock options are another form of quantity and not quality Executives who were paid by stock options have this attitude. If you pay me five million, I will give you a fraction of my time. However, to get my full attention you have to give me a share of the profits. In other words, they want to be paid for performance. Again this sounds good but as long as they can play games and manipulate the performance gauges it becomes strictly quantity. The incentive to do everything they could to get their firms' stock price up-including creative accounting was strong. The higher the share price, the better they did. They knew that it was easy to deceive the markets. One of the easiest ways of increasing reported profits was to manipulate the balance sheet, moving potential losses off balance sheet with one hand while recording profitable fees with the other. Investors and regulators had been forewarned, but evidently had not learned the historical lesson: creative accounting was behind many of the scandals related to the dot-com (tech) bubble of the late 1990s. You will read in this book many different creative schemes. Executives had an incentive- and the tools to design compensation packages that benefited them at the expense of others. Why didn't shareholders stop this? They too were blinded while they were making money. However, their eyes were opened widely when it was all taken back quickly and then some.

In many high-powered incentive schemes in finance, Investment professionals shared in the gains but not in the losses. Bonuses were based on short-term performance-not the long-term. The financial sector had incentives to take risks that combined a large probability of an above-normal return with a small probability of a disaster. If things could be designed to make it likely that the disaster would occur in the distant future, then all the better. The net return could even be negative, but no one would know until it was too late. (See chapter on averages) Modern financial engineering provided the tools to create products that perfectly fit this description.

Assume that you could invest in a safe asset with a return of 5%. The financial wizards designed a product that yielded 6% almost always (90 percent of the time). With slight of hand and pen they seemed to have beaten the market by 20%. However, in the remaining 10% of the time everything was lost. The expected (average) return was negative -4.5 %far below the 5% of the safe asset. The innovative product had more risk and a lower average return than the safe asset. But, on average with the bad returns occurring only one year out of ten, it will be a decade before the disastrous outcome occurs. During this long period the financial wizards reaped ample rewards from their amazing ability to beat the market. “The incentive schemes did not serve shareholders well, and did not serve the world well. The incentive schemes did, however, serve the banks'

executives well; as many are now wealthy, in some cases, very wealthy". Freefall 2010 Joseph Siglitz

The executives got away with this because they could and had poor corporate governance. Despite what you may think our corporations are not run by the shareholders. In reality, they are run by and for the benefit of the management. Management effectively appoints most of the board, and it naturally appoints people who are likely to serve their interests. The board decides on the pay of management, and the company" provides good rewards for its board members. It's a cozy relationship.

Congress throws us under the bus with the repeal of Glass-Steagall. The repeal brought investment and commercial banks together. The roots to the current crisis take hold. Greed for higher returns could be obtained only through high leverage and big risk-taking. By 2002, big investment banks had a leverage as high as 29 to 1, meaning that a 3 percent fall in asset values would wipe them out. The Securities and Exchange Commission (SEC), by doing nothing, was arguing for the virtues of self-regulation that banks can effectively police themselves. What were they thinking? Then, in April 2004, they got even more latitude, as some investment banks increased their leverage to 40 to 1. The regulators seem to have bought into the idea that with better computer models, risk could be better managed. Models seem to be the answer to all our problems. Better put, models seen to cause all of our problems!

Predatory lending

The financial system has shown that it cannot be trusted to sell products that are appropriate to the needs of those who buy them. Banks and other financial institutions took advantage especially of less educated Americans. All while bestowing great deals on members of Congress by using Countrywide Mortgage friends of Angelo program.

In 2005, Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act. The banks had fought hard for the law because it gave them new powers to extract money from delinquent borrowers. This alone makes me crazy: While the banks argued for public bailouts for themselves, they argued against any reprieve for the poor. While they put aside worries about moral hazard for themselves, they argued that any forgiveness for ordinary individuals who had been misled into taking debt.

Covered by the new bankruptcy laws, the banks felt confident that they could lend to anyone. One prominent bank on government life support had advertised, "Qualified at birth." Every teenager was inundated with credit card offers. Many families took on enormous debt, and in a cycle that resembled indentured

servitude, they worked to pay the bank. Larger and larger fractions of their income went to pay penalty fees and exorbitant interest charges, the interest on the interest charges and fees, with little chance for a fresh start. A quarter of a person's wages could he garnished. The new law also lenders to approve even worse mortgages, which may partially account for why so many toxic mortgages were given out *after* the passage of the bill. As a result 15 million homes about 1/3 of all mortgages are now underwater. Thank you Congress and the banking lobbyists.

The Fed has the power and had instruments at its disposal to intervene (which it chose not to use). It had made exactly the same flawed arguments during the tech bubble. Additionally in 1994, Congress had given the Fed additional authority to regulate the mortgage market, but Chairman Alan Greenspan refused to use it and promoted the bubble creating problems. He also had a serious flawed idea: if a problem arose, it could be easily dealt with. One of the reasons he believed that the problems could be easily dealt with was the new securitization model. Risks had been largely spread around the world so any problem could be easily absorbed. If the housing market in one state collapsed, it was only a drop in the economic bucket. While fed Chairman said that government could easily "fix" the economy- he didn't explain that dealing with the problems would cost us hundreds of billions of dollars and cost the economy even more.

Indexed bonds. People who are saving to retire worry about a bout of inflation. Some people would like to get insurance against this risk, but the market doesn't provide it. The government proposed to sell inflation-indexed bonds and thereby actually provide long-term insurance against inflation. The government has a responsibility to maintain price stability at a reasonable level. If it fails to maintain price stability, it should help compensate you.

The crooks on Wall Street opposed this initiative because they believed that people who bought these inflation-indexed bonds would hold them until their retirement. Which would be a good thing -why waste money on transaction costs associated with buying and selling. But it was not good for Wall Street, which was concerned with maximizing its own revenue, which they achieved by maximizing transaction costs and fees. Wall Street resisted this indexed bond.

Paying interest on our debt is often overlooked. For example, the interest payments to China, is about $15 billion a year. At 5 % interest, China will get $75 billion annually. That is a lot of money that could be used for other things. Keep in mind that some 40 percent of the world's population still lives on less than $2 a day and there are still nearly a billion people living on less than a dollar a day. Growing financial instability has become an increasing problem. In spite of the improvements in global financial institutions and increased knowledge

about economic management, economic crises have been more frequent and worse.

Efficient Markets theory would have you believe that markets are efficient. However, futures prices are unpredictable. Over the years, there has been strong evidence against the "efficient markets" interpretation. The current crisis is one of many nails that should be in the coffin. For instance, on October *19, 1989,* stock markets around the world crashed, falling some *20* percent or more. Nothing could explain a decline of this magnitude in the value of the world's capital-a devastation greater than anything that could he brought on by even the worst of wars. One could not predict such an event, but neither could one say that this volatility in the market reflected the market's all-wise processing of relevant information.

There was a curious inconsistency in the views of many of the efficient markets advocates. They believed that markets were *already* fully efficient. Yet many boasted of the virtues of new innovations in financial markets, and they claimed their huge bonuses and profits were their just rewards for the social benefits brought by these innovations. In these fully efficient markets, the advantage of these innovations, however, was very limited: it was only that they were lowering transaction costs-enabling rational individuals to manage at lower costs risks that they could have managed otherwise.

A few people (hedge funds) do seem to consistently beat the market. There is one way to do that that is consistent with the efficient markets hypothesis**: have inside information**. Trading on insider information is illegal. In addition, another concern is that a few big banks have an informational advantage. They may or may not be violating any laws, but it is not a level playing field. Either way you and I are not on the receiving end of this information. Many new SEC legal cases and investigations suggests that a large number of hedge funds are in fact basing their success on insider information. In summary, it just the same old same old methods of doing business. The insiders get richer at our expense.

Introduction

Every investor learns and Wall Street touts, do not put all you eggs in one basket. Yet, the Wall Street rocket scientists succeeded in creating a rocket that landed on them. The five investment banks brought down by the mortgage/credit debacle failed to follow their own advice and diversify. Had they followed sage advice, they could have weathered the storm**.** Or would they? Now tax-payers, you and I are going to foot the bill for fixing what these very smart people created. What adds *insult to injury* is these *crooks* walk away from decimated companies with millions of dollars. All while lying right to your face, telling you to "hold on, stay the course, we are coming back". This they did as they cleared out windfalls through the back door!

The United States has more Noble laureates than any other country. One would think we would have a leg up (be the best protected) as compared to the rest of the world. Yet, we were the opposite and lead the global meltdown. That being said, as the financial crisis is debated for years by Congress, regulators, the academics and a new batch of rocket scientists, the consumer must learn how to recover from this downfall, how to prevent it from happening again and what new protections we need to secure our life's savings. As Einstein said, "We cannot solve problems by using the same kind of thinking used when we created them." Many falsehoods will be uncovered. We must learn how to multiply our dollars; get a dollar fifty, two or even three dollars in value for each dollar we invest. To understand this multiplier, one will have to think beyond compounding or getting a high return. The heavily touted, "my investment is better than yours" or "my strategies are better than yours" are dead. Many will still cling to the old ways, believing they can search out the right asset allocation, timing, strategy or manager to make a difference. The new paradigm is there must be multiple benefits to validate my decisions. You have to get more benefits for your dollars; anything less will be a losing strategy. For many, this book will be an eye-opener. This new knowledge, along with other strategies, will change the way you think. Most importantly, you will be on a different a different road - this road leads to a better life!

It is imperative to begin with an open mind. Better yet, a mind cleared of everything you have learned about saving for the future. The old investment methods have failed; asset allocation, modeling, target date funds and active management. These failures of investing guidelines could not have come at a worse time, as more and more responsibility is being placed on the person to secure his retirement and future.

If you knew a hurricane was coming, would you prepare? The answer is not as simple as yes or no, but rather how to prepare. The few who understand will be able to weather the storm well and become a great benefit to their children, grandchildren and families. The U.S. economy is inevitably heading for great strains that will crumble many people's hopes and dreams. One needs only to look at the

news and see the Greek and other country's financial crisis as a micro economic view of the U.S.'s problems.

The mantra for the masses has been changed from just ***get rich*** to ***do not die poor***. The ensuing problems and the tax tsunami that will follow will put unbearable pressure on the middle class and sweep many away. Preparation is the only answer. How do you prepare? What are you doing about it today? Many of us will do nothing, many more mistakenly believe they are prepared. Unfortunately many will find out too late that have been the victims of misinformation. Hopefully this book will awaken some and motivate others on the need to take action today. There is no way we can go forward believing everything we know to be true will stay the same. We will be facing a new and very different world. In other words, just get it done!

Currently, we have eight major unresolved problems, any of which alone will cripple the economy. Nine through eleven are problems as well, but pertain to us personally. I have specifically left out global unrest, terrorist activities (dirty bomb), and natural disasters.

1. Medicare, Social Security & the Unaffordable Healthcare Debacle.
2. Future Unfunded Liabilities (promises we made but might not be able to keep)
3. Future Budget Deficits & the Current Debt and Debt Service
4. Phantom Wealth
5. Inflation
6. Demographic Changes (Baby Boom Wave Followed by Baby Bust Ripple)
7. Real Tax Increases and Inflation Taxes
8. Benefit and Entitlement Cuts
9. *Declining Health's Moral Hazard*
10. *Credibility Decline & Herd Mentality*
11. *Declining Education Levels*

#1) The financial condition of the Social Security and Medicare program's projected long run costs are not sustainable under current spending. Social Security's annual surpluses of tax income over expenditures are strained and have disappeared because of the economy. This will worsen shortly as more of the baby boom generation retires. The deficits will be made up by redeeming (more borrowing) trust fund assets until paper reserves are exhausted at which point current tax income would be only sufficient to pay about three-fourths of scheduled benefits.

Medicare's financial status is much worse. Medicare's Hospital Insurance (HI) Trust Fund is expected to pay out more in hospital benefits and other expenditures this year than it receives in taxes. The difference will be made up by redeeming trust fund assets. Growing annual costs are projected to exhaust HI reserves in 2011, after which the percentage of scheduled benefits payable from tax income

would decline to 81 percent and will continue to drop. In addition, the Medicare Supplementary Medical Insurance (SMI) Trust Fund that pays for physician services and the prescription drug benefit will continue to require general revenue financing. In addition, premiums and co-pays will grow substantially faster than the economy and your income over time. The drawdown of Social Security and HI Trust Fund reserves and the general revenue transfers into SMI will result in mounting stress on the budget. (To clarify every time the government goes into the "trust funds" it effectively has to borrow the money from someone else. This is because they spent the trust fund already. Do not forget they pay interest on the loan as well.)

#2 Future liabilities are over $108 trillion factoring in all obligations of promised benefits from states and the federal government. Visit www.USdebtclock.org.

#3 Future budget deficits, the current debt and debt service will become unsustainable

#4 Everyone must be on the alert for Phantom Wealth, which appears to be 'real' or has a 'physical existence', but can vanish quickly. Phantom Wealth takes on many forms: Like believing what your home will be worth or looking at retirement plan balances and forgetting what percentage must be taken off the top for taxes.

#5 We need to be vigilant about inflation, which is a natural occurrence of too many dollars chasing too few goods. First, the expansion of the money supply has been massive. Second, projected federal deficits are ballooning out of control. The CBO estimates we will add another $9.8 trillion to the national debt over the next decade. Eventually, it will be too tempting to reduce the value of this massive debt simply by printing more money. Senior inflation will be a very big issue for the baby boomer retirement wave and will ripple through the entire economy.

One of the biggest threats to your portfolio's performance over time is inflation which *destroys value gradually by eroding real returns*. Every additional point of inflation, your portfolio will lose about 20% of its purchasing power over the next 25 years. In addition, tax inflation is levied on your nominal return, even if it does not experience a real increase in purchasing power. All combined, you can easily lose a third or more of the value of your portfolio over time with just a tiny bit of inflation. Investors too often look at "the numbers" in their portfolio without asking what those numbers can actually buy. Keynes termed this myopic view the "money illusion".

#6 Stock prices are doomed to fall as baby boomers cash out of their 401(k)s and IRAs). With much smaller generations following the baby boom wave, Boomers will flood the market as they sell their stock holdings. They will depress prices and possibly cause a market crash. With that in mind, Boomers may attempt to salvage some of their money and decide to sell faster if there is any hint of a bear market.

No one wants to be the last one out the door. There is at least an over 90% chance that boomers will encounter problems trying to sell shares at reasonable prices. There will be too few buyers with adequate purchasing power to buy the boomers stocks. Do not count on overseas buyers; many countries are in the same baby bust swing we are. In fact, some countries projections of population declines are down right scary. If you are not worried, you should be. How much in stock and funds will there be available for sale? Fed's Flow of Funds Accounts, includes the total of all U.S. stocks and stock mutual funds held in all retirement plans to be, as of the end of '08, $6 trillion. Let me know, who do you think will be able to buy all this stuff?

#7 Taxes will be rising for most people without question.

#8 Benefit cuts will affect most everyone with no sectors spared (means testing will be commonplace).

#9 Declining Health's Moral Hazard. (Please read this passage from an economist's point of view. I am far from thin. At 5' 9.5" I weigh in at over 210 down about 50 lbs. (My goal is 205 lbs). Part of the reason so many Americans (more than a third of the adult population a three-fold increase since 1960) are overweight and unhealthy is because we have lost our perspective on healthful portion size and healthy food. Often, people are not even aware of how many calories we are ingesting and our perception of what is normal is not. In fact, a Harris interactive survey shows that 23% of people age 50-64 who are overweight think they are normal weight. The overall effect is rapidly increasing morbidity. The economic consequences are enormous. Health economists from Centers for Disease Control and Prevention report: Obesity-related medical costs were 10% of all annual medical costs. The annual health-care costs of obesity in America have risen to $147 billion in 2008. In addition, the Obesity Society's report the obese are less productive than thin, take more time off work because of their various ailments, and produce less when at work. The health-care costs and lost production caused by obesity and lack of healthful eating are staggering. Even for those who are thin, unhealthy eating will be major a concern for the future fiscal health of the US.

#10 Credibility Decline and Herd Mentality. You just don't know who or what to believe. The Internet offers billions of bits of information- yet no answers. The confusion will force many to follow the pack and do what everyone else is doing. This may seem like a good idea as everybody cannot be wrong. Unfortunately, the pack will be following the lead of whoever has the biggest advertising budget.

#11 Declining educational levels. The US spends significantly more than any country in the world on education. Yet we consistently score below some 20 plus other countries on standardized competency tests. In other words, we are producing students that are less prepared to increase our needed productivity to get us to grow our GDP and we are paying more for the privilege to underperform the world.