

COMMON SENSE

A Simple Plan for Financial Independence

by Art Williams

Get Started Now

Pay Yourself First

Use Time & Consistency

Establish An Emergency Fund

Buy The Right Life Insurance

Minimize Taxes With A "QP"

Bypass The Middleman

Invest With Professional Management

Start A Family Tradition

Develop A Winning Attitude

Sound Principles
For Today's
Changing Economy

COMMON SENSE

I believe that almost everyone has basic common sense. Common sense is simply the ability to make the right decision. But in order to make the right decision, you need **all the facts**. Once you have them, your common sense will tell you what to do.

The problems come when you act on impulse or emotion. When you don't get all the facts before making a decision, many times these decisions turn out to be wrong.

What I want to do in this book is to give you **all the facts** about how you can become financially free. Then, I believe your common sense will tell you what is right for you and your family.

COMMON SENSE

A Simple Plan for Financial Independence

by Art Williams

- Over **14** million copies currently in print
- Now selling over 250,000 per month
- Available in Spanish edition
- Available in Canadian edition
- Requested for use in over 9 foreign countries
- Used as a text for economics, business and insurance courses in colleges and high schools throughout the U.S.
- Requested for use by financial institutions, CPA fraternal organizations and Federal government agencies
- Requested by over 10,000 viewers following Art Williams' appearance on "The 700 Club" television program



To my wife, Angela

The most special person I've ever
known, my inspiration, and the
greatest joy of my life.

Published by Parklake Publishers, Inc.
All rights reserved.
Atlanta, Georgia
August 1983

©1983, Parklake Publishers, Inc.
©1983, First Edition, Parklake Publishers, Inc.
©1985, Second Edition, Parklake Publishers, Inc.
©1985, Third Edition, Parklake Publishers, Inc.
©1986, Fourth Edition, Parklake Publishers, Inc.
©1987, Fifth Edition, Parklake Publishers, Inc.
©1988, Revision, Parklake Publishers, Inc.

TABLE OF CONTENTS

Introduction	2
My Own Story	3
Can You Manage Your Financial Future?	5
How much control do you have over your finances? Are you smart enough to handle your own family's affairs? Some thoughtful answers to these questions.	
Principle #1 — Get Started Now.	7
What to do if you don't have money to invest. Six different options to use for freeing up money to use in building a rich financial future.	
Principle #2 — Pay Yourself First.	11
The answer to "too much month at the end of the money." Facts about how people save, and why it's critical to put yourself at the head of the line.	
Principle #3 — Use Time & Consistency.	14
The two major factors in acquiring a substantial sum of money. Plus, the amazing truth about "the magic of compound interest."	
Principle #4 — Establish an Emergency Fund.	23
The first step to setting up your financial program. The best way to prepare for unforeseen expenses without dipping into your long-range investment program.	
Principle #5 — Buy the Right Life Insurance.	26
Why many people "waste money" with the wrong insurance program, and how to know what to buy, and when to buy it.	
Principle #6 — Minimize Taxes With "Qualified Plans."	42
Every wage earner has a tax problem. How to use an IRA account to soften the "tax bite" and have more disposable income for your family.	
Principle #7 — Bypass the Middleman.	49
The dangers of "guarantees," and the reasons why you should "become an owner, not a loaner."	
Principle #8 — Invest with Professional Management.	52
Straight talk about investments. How to decide on your objectives, and facts about what may be the best investment for middle America.	
Principle #9 — Start A Family Tradition.	60
Establishing a sound financial strategy, including how to begin a generation-to-generation investment.	
Principle #10 — Develop A Winning Attitude.	63
The one quality you must have to succeed in your finances and management (or anything else). A 6-step plan for achieving your financial goals.	
End Notes	67
Bibliography	67
Personal Balance Sheet	68
Financial Worksheet	69

DO YOU CONSIDER YOURSELF AN “AVERAGE AMERICAN?”

Then take a look at these statistics:

- **THE AVERAGE AMERICAN SAVES LESS THAN ANYONE IN THE WORLD.** In 1986, we saved 4.8% of our disposable income, compared to 10.8% by the British, 13.2% by the West Germans and 17% by the Japanese.¹
- **MOST AMERICANS WILL RETIRE IN POVERTY.** According to the U.S. Census Bureau, 87% of Americans 65 or older are living on a meager income of less than \$10,000 a year, 46% on less than \$5,000.²
- **IF YOU DIED TODAY, CHANCES ARE YOUR FAMILY WOULD BE PROTECTED FOR LESS THAN A YEAR.** Statistics show that the “average” family carries death protection of \$17,384. In 1986, the average death claim paid was only \$6,761!³

Alarming? Yes, very. But this very minute you’re probably about to dismiss these scary figures as “not applicable” to your personal situation. Are you sure? Didn’t you just agree that you were an “average American?” Before you turn the page and forget it, think seriously about your financial progress. Forget your plans for a moment. What have you actually **done** to prevent being a statistic?

I’m quoting these statistics, not to scare you, but to point out dramatically that most Americans are making some serious financial mistakes. Remember, the thousands of individuals who make up those statistics didn’t think it could happen to **them**.

No one intends to let his goals of security and financial freedom slide. It just happens. Most people make the same basic financial mistakes:

1. LACK OF PLANNING.
2. LACK OF KNOWLEDGE ABOUT THE WAY SAVINGS AND PROTECTION VEHICLES WORK.
3. DEPENDENCE ON “SOMEONE ELSE” TO BE RESPONSIBLE FOR THEIR FINANCIAL FUTURE (BANKERS, BROKERS, INSURANCE AGENTS, ACCOUNTANTS, ETC.).
4. PROCRASTINATION.

Enough about the problems. This is a book about **solutions**, about how to make your money work for you. In this book, I want to show you how to avoid these mistakes and how to get started **now** on the road to total financial independence. If you follow the simple plan outlined here, you’ll never become one of the “statistics.”

Let’s get started!

MY OWN STORY — AND WHY I'M INTERESTED IN YOUR FUTURE

I became interested in investments and insurance completely by accident. I was coaching football and teaching in Columbus, Georgia. At a PTA meeting, I met a manager for a financial services group who believed in term insurance plus investments as a way to build financial security.

Our meeting seemed destined because my accountant-cousin had talked to me about the same philosophy only a few weeks before. I had personal reasons for being interested. My father had died suddenly and tragically of a heart attack at age 48. My family was devastated. There were three children: I was in college, one brother was in high school and another brother was in the sixth grade. My mother spent the next 13 years struggling to raise her boys. My dad had too little life insurance, no will, little savings and no retirement program.

When my cousin explained to me that the purpose of life insurance was protection only, and that I could have \$100,000 of term insurance for the same money I was paying for \$15,000 of whole life insurance, I was stunned. I thought I was protecting my family in the best way that I could.

I was skeptical, so I went to the library in Columbus to research it. As an educator, I wanted to find the answer, and knew that consumer organizations could help. I found *Consumer Reports*, *Changing Times* and a great book, *What's Wrong With Your Life Insurance?* All of these publications confirmed what my cousin had told me. This revelation excited me so much that I began to talk to others about it. In most cases, I found their financial programs were disasters, just like mine and my dad's.

The man I met at the PTA meeting offered me a job selling with his company. I didn't want to be a life insurance salesman, but I felt that I would not be selling people "just another insurance policy." I wanted to provide my friends a chance to do what I had just learned to do — take the same money they were spending and get more value for it. I wanted to help them with investments, savings and taxes — their whole financial program.

I was "fired up." I worked quickly to get my insurance and securities licenses. I wanted to give my clients the same information I used myself to understand financial services. I wanted people to be comfortable with me. I tried not to "talk down" to them as I've had salesmen do to me. I sold what I believed in myself.

Then a funny thing happened. I began to earn more money with my new part-time job than I was earning as athletic director and head football coach. After two and a half years part time, I had accumulated over \$40,000. I decided to make life insurance and securities my full time profession.

I became totally financially independent seven years later. I did this through a combination of efforts in both my business life and personal life. But if someone hadn't opened my eyes to the basics of financial independence, I would probably still be struggling today.

Since I accidentally got started in this business, my life has been blessed in a special way. I know what a difference being secure financially has made in my own life, and the life of my family. In the last 20 years, I have had the joy of sharing the promise of financial security with many people. I have talked with thousands of families in almost every state, and have developed 10 principles into a road map for **total financial independence**. These general principles have worked for me personally, and for an amazing number of other families. They can help you, too, to have more financial security and peace of mind.

There's no trick to financial success. It's so simple, if you just take the time to think it over, I hope you'll take that time with this book.

A handwritten signature in blue ink, appearing to read 'Art Williams', with a large, sweeping flourish at the end.

Art Williams

CAN YOU MANAGE YOUR FINANCIAL FUTURE?

A few years ago, I heard about a speech made by a high-powered insurance executive during a seminar. The point of his speech was that the average American family was not smart enough to look at all the options and make intelligent decisions about what they needed — they needed to have someone to tell them. Ridiculous! I believe that **most financial institutions have deliberately complicated a simple business** to confuse the American people so they can sell them high-cost, low-quality products and services.

You do have options.

People of average intelligence, like you and me, can understand financial matters, given the facts.

There are options available, *if you know what they are*, that can minimize your taxes, give you more disposable income and allow for the kind of wise investments that can make you and your family more financially secure, even wealthy.

What You Need Is a Gameplan.

My experience has shown me that planning and investing for your future is nothing but a simple mathematical problem, like $2 + 2 = 4$, and a math problem has only one answer. I want to give you that answer.

Planning is the first step.

The key to financial independence is not necessarily having a lot of money to invest (most of us don't); it's not necessarily being in the right place at the right time. There are no tricks and gimmicks. Luck is not necessary. And you certainly don't have to be a financial genius.

All you need is a gameplan. Planning is the first step to taking control of your financial future. It doesn't take a genius to figure out that you can't reach a destination without a road map. You have to have a plan. It should be flexible, but firm, and (this is important) you must stick to it!

Stick to the Fundamentals.

Preparing a gameplan isn't difficult if you stick to the fundamentals. When I coached football, I believed that the fundamentals were the key to victory. No matter how smart, talented or sophisticated you were, you won by out-blocking, out-tackling and being in better

physical condition than your opponent. After 20 years in the financial planning business, I believe that fundamentals are the key to **financial victory**, as well.

Remember that old saying, "Watch your pennies and your dollars will take care of themselves?" It's still true.

The fundamentals of financial independence are so simple, so obvious. People spend their whole lives looking for a better way, a "get rich quick" scheme, only to find out after it's too late that if they had done the little things, the obvious things, *the fundamentals*, they would be in great shape.

MY PLAN HAS 10 BASIC PRINCIPLES:

GETTING STARTED

1. Get Started Now.
2. Pay Yourself First.
3. Use Time & Consistency.
4. Establish an Emergency Fund.
5. Buy the Right Life Insurance.

MOVING FORWARD

6. Minimize Taxes with an IRA.
7. Bypass the Middleman.
8. Invest with Professional Management.

EXTRA HELPS

9. Start a Family Tradition.
10. Develop a Winning Attitude.

It works! And I hope it helps you become totally free of financial worries.

PRINCIPLE #1

GET STARTED NOW

WHERE WILL I GET THE MONEY?

Problem: *Most people have too much **month** left at the end of the **money**. They don't have "extra income" to invest for the future. The present is tough enough.*

Solution: *No matter what your income, you can find money to save. It's a matter of repositioning your income and priorities.*

Whenever I talk to people about beginning to build for financial freedom, their very first response is this: "Building your financial estate is a great idea, but my family doesn't have any 'extra money' to invest each month. We do well just to pay the bills and keep our heads above water." You're probably thinking the same thing right now. Even families with above-average incomes are feeling the pinch of inflation and the tax bite.

But don't give up too easily. If you're serious about building financial security for you and your family, there **are** ways to arrange your present income (what you actually are earning **NOW**) to free up funds for investment.

Lets's look at some options:

1. **PAY YOURSELF FIRST.** This is one of the most important concepts in this book, and an entire chapter is devoted to it later. Briefly, paying yourself first means putting yourself and your family before any other demands on your money. Deposit a set amount **EACH AND EVERY MONTH** into an investment program, no matter what other financial obligations you have. It's amazing how fast your money will build if you invest even a small amount regularly, at a good rate of return.
2. **ADJUST YOUR PRIORITIES.** If you're like most people, you spend money on things that you don't really need. Or, you don't really **manage** the money you do have; you just spend as expenses come up. Don't feel bad about this, we've all done it. It takes a little more time to develop a management attitude about your spending habits, but it's essential that you "get control" of your spending.

Probably the best way to do this, at least at first, is by **budgeting**. Determining what you will spend on certain items, and sticking to that plan, can make a world of difference in where your money goes.

Take charge of your money.

Budgeting is also a great way to determine where you're wasting money. As a family exercise, keep a budget for one month. Don't make it so much trouble you won't keep it up; just a rough record will do. Whenever family money is spent, jot it down on a budget sheet or even a legal pad.

I promise you at the end of the month you'll have a real eye-opener. You'll be amazed at how the little things add up to big dollars!

Let's take an easy example:

Suppose you and your family attend a Little League ballgame once a week. Let's say you have two children. It costs \$12.00 for the four of you to eat at the game. At four games a month, that's \$48.00. During the entire Little League season, say 3 months, you'll spend \$144. If you spend \$44 of those dollars in groceries during that period to make sandwiches at home and carry them to the game, you'd have \$100 more that could be invested for your future! And you haven't deprived yourself of anything!

You see how just by making one minor adjustment in your activities, you have "instant money?" There are probably many situations like this in your daily life that could be used to free money for building financial security.

After you've done this exercise for one month, sit down with your family members and try to prepare a rough budget for the future. Allow for items like gifts, and **put a dollar amount limit** on what you will spend for each. Having a definite figure in mind helps you avoid rushing to the store and spending far more than you can afford.

The main purpose of a budget is this: it gives you control of your own money. You actively decide what will be spent, and where your money can best be put to good use. There's nothing quite as good as the feeling that **you** are in control of your money, rather than your activities and expenses controlling you.

You can't have everything!

3. **ADJUST YOUR LIFESTYLE.** Along with controlling your money comes the matter of priorities. And along with setting priorities comes one tough rule of life; **you can't have everything.** If you want to achieve financial independence, you may have to make sacrifices for a period of time.

A part of the budgeting process is distinguishing between what you need and what you want. For example: you might **need** a second car, but you might **want** a Cadillac.

Too often purchases, even major ones, are made on the basis of want. If you're really ready to get serious about your financial future, you may have to postpone some of your desires and wants. It's a kind of trade-off — do without something now so that you can have **more** later. If you usually stay a week on out-of-town vacation trips, trim the time away to three days and plan enjoyable family activities at home for the balance of time.

I know it's tough. But, in most cases, it simply has to be done. And oftentimes, it can be done in basic ways that simply eliminate extravagance without any decrease in enjoyment!

4. **EARN ADDITIONAL INCOME.** If your family income is very modest, things may still be so tight that it's tough to invest more than \$10-\$20 a month. If you want to make significant progress, consider taking a part-time job to get the extra income for starting your investment program.

Get a part-time job.

That's what I did. I've worked numerous part-time jobs. As a coach and teacher in Columbus, Georgia, I started selling insurance and securities nights and weekends. The money I made was earmarked for savings, and I socked everything I made into an investment account. I saved \$40,000 that way, and it was the income from that part-time job that enabled me to start my own business. That part-time job turned my life around, and the financial freedom it gave me long-term is something that was valuable beyond measure.

I'm not saying it's a piece of cake. Work is work; but I'll tell you, a little hard work never hurt anybody. And, believe me, the rewards are worth it. Consider part-time work for all members of your family. There's nothing wrong with your children making a contribution to their expenses. Summer jobs or part-time weekend jobs can provide the kids with their own spending money, and thereby eliminate another area of expense from the family budget. And that equals more money to invest!

5. **REALIGN YOUR ASSETS.** Another way to free up additional income for savings and investment is to realign your assets. This simply means that you move assets you have around to produce cash. You may be able to "free-up" money to get your investment plan started immediately.

There are two major areas in which most Americans are not getting their money's worth:

"Free up" money to invest.

A - Low-interest savings accounts or accumulations with banks, savings and loans and insurance companies. You can take money from a 5½% savings plan and invest it in an area that has the potential for higher returns.

B - Low-value, high cost life insurance. You can replace your outdated, expensive life insurance policies with term insurance and currently save as much as 30-70%.

Both these areas are covered in more detail in chapters 5 and 7 of this book.

Another hidden asset for many people is an Individual Retirement Account. When you invest the maximum amount allowed in an IRA, you can deduct that amount from your taxable income — thereby saving money you would normally pay to Uncle Sam.

Don't buy on time.

6. **AVOID THE CREDIT TRAP.** Credit cards are good for convenience and emergencies. But be careful to avoid the common pitfalls of "plastic money." Pay off your charges at the end of each billing period — otherwise, you may pay 18-21% in finance charges. Be careful not to overspend. It's so easy to say "charge it," but you'll have to pay up sooner or later.

Installment loans are another area of caution. It's tempting to buy something on "time." The tragedy is that by the time you pay off the loan, the newness of the item has worn off — it may even be broken or damaged beyond repair. Save your money and pay cash instead — it's the only way to win!

For purchases like furniture or appliances, save your money and pay cash instead. If you must use an installment loan for a necessary major purchase, like a family car, finance as little as possible and pay it off as soon as possible. Don't load up your loan contract with extras like credit life insurance, disability or automobile insurance.

Now, see how many options you have. And just a few short pages ago you were convinced that you couldn't come up with any money to start on your path to financial freedom! But these are the facts: You can do it. You do have a choice about your financial future.

Come along with me now while we talk more about a **gameplan**. We're already on our way! Let me remind you again. It's easy. Anyone can do it. Don't give up when you see a few charts and graphs. I really believe that if you'll "hang in there" to the end, you'll be ready to take control of your future.

WHERE DO I GET THE MONEY TO INVEST?



PRINCIPLE #2

PAY YOURSELF FIRST

Problem: *At the end of the month, most people don't have anything left to save.*

Solution: *At the first of the month, before you pay anyone else, write a check to yourself for 10% of your income.*

Why Is Paying Yourself First So Important?

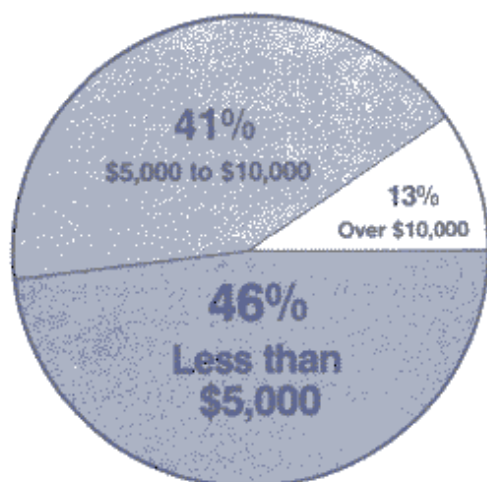
Today, many people who never learned this basic concept are living in poverty. The best argument I know for paying yourself first is the situation of retired people in America.

Look at the facts: According to a Census Bureau Survey, most people fail to accumulate enough money in their lifetimes to retire with dignity.

The chart at left illustrates graphically that most Americans retired on less than \$5,000 a year. A full 87% retired on less than \$10,000 annually.⁴ Many of the people who make up these statistics have worked hard all their lives, just like you and I are working now. What happened?

How can this sort of thing be happening in the richest country in the world?

It's a matter of percentages. Originally the planners of Social Security calculated that there would be 30 workers for every retired person. In 1955, it was down to a 6-1 ratio. Today the rate is 3-1, and is likely to go even lower.⁵



1935



1955



1987

It's time to face the hard facts: by the time you retire, Social Security will not provide for your retirement. It was designed as a supplement to retirement income, not as a primary income; yet many people have come to rely on Social Security exclusively. Again, it's the old problem of depending upon someone else to prepare for your financial future. Never do it — no one cares about your future the way you do.

YOU'LL EARN A FORTUNE IN YOUR LIFETIME

Most people fail to understand the basic concept that they will earn a fortune in their lifetime. No matter what your annual income is, a tremendous amount of money will pass through your hands in your lifetime.

For example:

Average of \$12,000 for 40 years = \$480,000

Average of \$20,000 for 40 years = \$800,000

Average of \$30,000 for 40 years = \$1.2 million

Pretty amazing when you think about it, isn't it? **But it's not how much money you earn that counts, it's how much you keep that really matters.**

IT'S NOT WHAT YOU EARN . . . IT'S WHAT YOU KEEP

How are you doing so far? The answer to the next question will help you gauge how you're doing so far, according to your income level. Roughly figure how much money you've earned so far in your working life. Estimate a yearly "average" amount and multiply it by the number of years you've worked. Even if your salary is modest, it's probably a pretty impressive figure. Now, the most important question: **How much of this amount have you saved?** Look at your savings account balance. What percentage of the substantial sum you've earned over the years is reflected there?

If you're like most people, chances are you'll be shocked by your answer. How could you have made all that money and saved so little? It's easy to do. First, there are taxes. Then, after paying your monthly bills, you find that you have more bills remaining than you have dollar bills. It's easy to see why people say they just don't have any money to invest. Unfortunately, if you don't act now, 10 years down the road you will find yourself in exactly the same position.

PUT YOURSELF AT THE HEAD OF THE LINE

If you want to have any chance of achieving long-term financial independence, you've got to start by **paying yourself first**. Put yourself at the beginning of the line, not the end. Pay yourself before

$$\begin{array}{rcl}
 & \text{average annual income (estimate)} & \\
 \times & \text{no. of years worked} & \\
 \hline
 = & \text{total amount earned} & \\
 \\
 \text{Divide} & \text{savings} & \text{by} \\
 \\
 & \text{total amount earned} & \\
 \hline
 = & \% \text{ income saved} &
 \end{array}$$

you pay the grocer, or the banker, or the doctor. I strongly recommend that you pay yourself a minimum of 10% of each paycheck you earn. Put this 10% into a monthly investment plan, a plan that you consider your "DO NOT TOUCH" fund. Eventually, this fund can supply you with money for major expenditures, such as the down payment on a home.

You may want to split your 10%, or whatever amount you can save, into two different funds, one for short-term miscellaneous emergencies, and the other for long-range goals.

YOUR "DO NOT TOUCH" FUND

Next, the most important point about your savings plan: **don't touch it!** I know it's hard. As a school teacher and coach, I had to struggle financially and was always taking extra jobs to help make ends meet. I refereed basketball games for \$10-12, umpired baseball games for \$5-10, sold Christmas trees and so on. I had \$1,000 in my teacher's credit union and was trying to save \$100 a month. My savings would build up to \$1,200 or \$1,500 and then I would have to buy a new washing machine, or something else. My savings account was a "put and take account" and constantly went up and down — mostly down.

To succeed with regular savings, you've got to develop a certain mindset about it. You must view your savings account as "untouchable." I know it's hard. And I know things come up that demand attention. All I'm saying is that if at all possible, once you start your savings plan, pretend it's not even there. When you **do** need it for one of the goals you and your family have set, it will be there. Don't "put and take." **You're taking a step backward each time you withdraw for something other than a major goal.**

THE MAGIC OF COMPOUND INTEREST

Even if 10% of your salary doesn't seem like much, save it. One of the most amazing facets of financial management, and also one of the simplest, is what many people call "the magic of compound interest." We'll talk about compound interest more later, but let me say here that even the smallest amount of money, saved systematically over a period of time, will multiply far beyond your expectations, through the magic of compound interest. No amount is too small or insignificant to save. The important thing is to get some money started working for you.

Look at yourself as the employer of your income. The dollars you earn are your "employees." If you owned your own business, you couldn't afford to let your employees sit around and do nothing. In today's economy, you can't let that happen to your money, either. Your money is your work force. Get it working for **your future.**

Don't "put and take."

Your dollars are your employees.

PRINCIPLE #3

USE TIME & CONSISTENCY

It's a common misconception that to save a lot of money you have to make a lot of money. In reality, acquiring a substantial sum of money requires only two things:

1. TIME
2. THE DISCIPLINE TO CONSISTENTLY WORK TOWARD A GOAL

We've all got the time. And the discipline is there, too, just as soon as we set our sights on a goal that can be attained.

Chances are, if you're an average family, you haven't yet acquired \$10,000 in savings. Don't despair! By paying yourself first, you'll get off to a good start. With the help of two key elements — time and consistency — that magical figure is closer than you think.

I used to think that the interest rate on an investment was pretty simple — you invest your money at 5% and get “X” in return. Then if your investment returned 10%, it would be “X” times two. **Right?**

WRONG. That's when someone showed me a compound interest table and explained the “magic” of compound interest.

\$1,000 - Lump Sum Investment (invested one time only)

	20 Years	30 Years	40 Years	50 Years	60 Years	70 Years
5% =	\$2,653	\$4,321	\$7,039	\$11,467	\$18,679	\$30,426
10% =	6,727	17,449	45,259	117,390	304,481	789,747

As you can see, it's not just how much you save that counts. The amount of time that you maintain a consistent savings program makes a big difference, too.

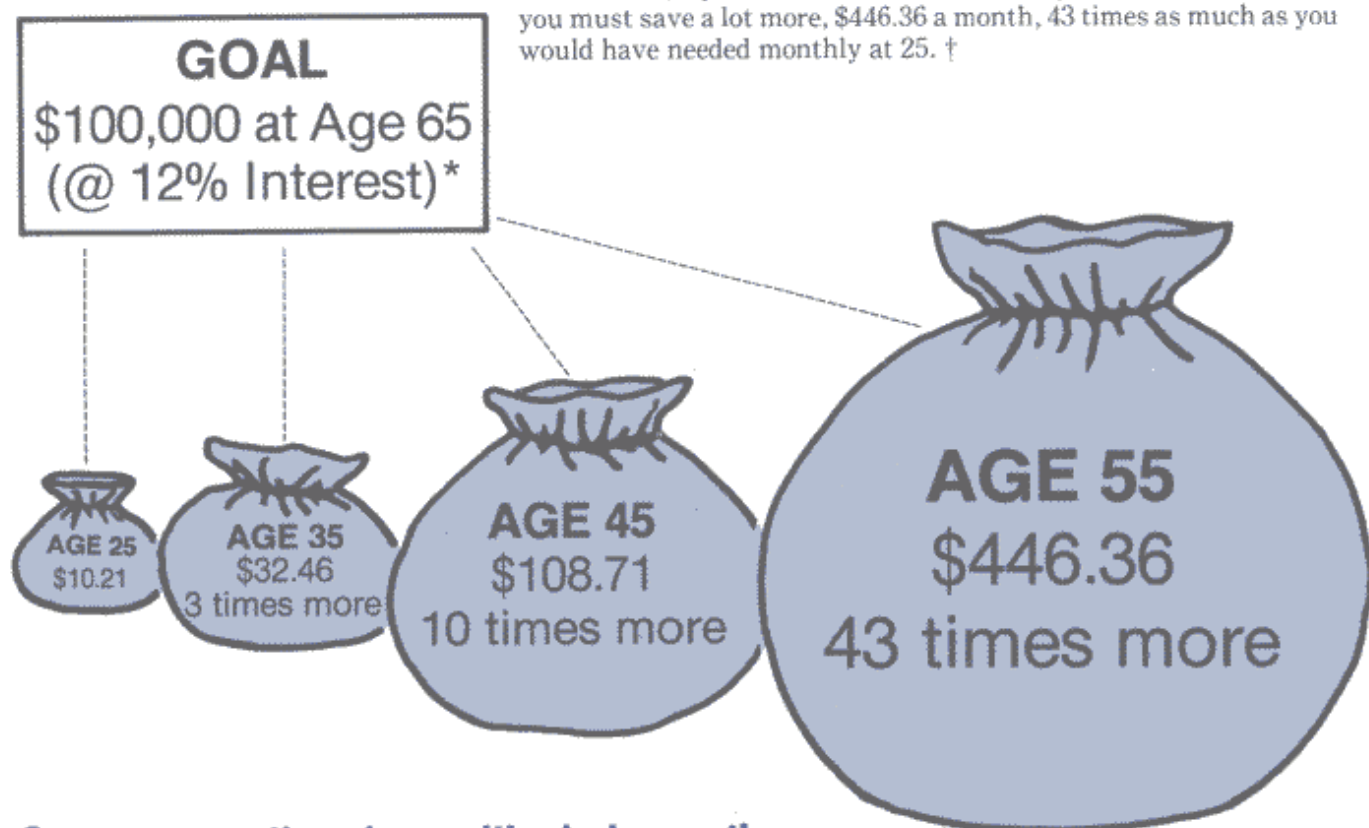
TIME IS ON YOUR SIDE

Problem: *Most people don't start their investment program until it's too late.*

Solution: *It doesn't take a lot of money to build financial independence if you start investing soon enough. Let time work for you.*

The importance of **time** can't be underestimated. It's one of the most important elements in your financial plan. Most people fail to use time to their advantage because they allow PROCRASTINATION to erode this plan.

Suppose you are 25 and have a goal of \$100,000 cash at retirement age. You could accomplish this by saving only \$10.22 per month at 12%! I know it seems amazing, but it's true. And it's also true that anyone can manage to save \$10.22 per month, no matter what their income. But, if you are 55 and have the same goal — \$100,000 at 65 — you must save a lot more, \$446.36 a month, 43 times as much as you would have needed monthly at 25. †



So, you see, time is a critical element!

† Income taxes may be due annually on the interest earned, even though the money is invested and is not a part of your "disposable" income.

* The 12% rate of return is used for purposes of example. Actual rate at the time you invest may be lower or higher.

If you want to be financially independent, you have no choice—you must start now, or later you must save more. **One thing is certain: you can't afford the high cost of waiting.**

How Money Works - The Price of Waiting (\$1 a day invested at 12%, compounded annually until age 65)

		Total at Age 65	Cost to Wait
Begin Saving:	Age 25	\$296,516	—
	Age 26	264,402	\$32,114
	Age 30	116,858	179,658

Time + \$ Amount Lead to Success

If you save \$10/month beginning now, at an annual rate of 12%, then:

Time is the key. The other element is money. Suppose you wanted to start saving \$10 per month over a long period of time, and suppose you were able to achieve a 12% return on your money. Let's see how it would work: (Don't get impatient when you see charts or figures coming up. They're easy to understand, so take the few minutes to look them over and think about the concept. It's worth it!)

at the end of ...	20 Years	30 Years	40 Years	50 Years	60 Years	70 Years
you will have saved ...	\$9,198	\$30,809	\$97,930	\$306,398	\$953,866	\$2,964,806

BEGIN WITH A LUMP SUM

If you save \$120 today in addition to the \$10/month, at 12%, then:

There's one way to really give yourself a boost when you start your savings/investment program. If you have a moderate-sized "lump sum" to begin with, your results will be significantly different. Let's say you begin your program with \$120, (12/\$10). You'll be giving yourself a year's head-start.

at the end of ...	20 Years	30 Years	40 Years	50 Years	60 Years	70 Years
you will have saved ...	\$10,356	\$34,404	\$109,096	\$341,078	\$1,061,578	\$3,299,342

THE MAGIC OF COMPOUND INTEREST

Problem: *Most people think a few extra percentage points of interest don't amount to much money.*

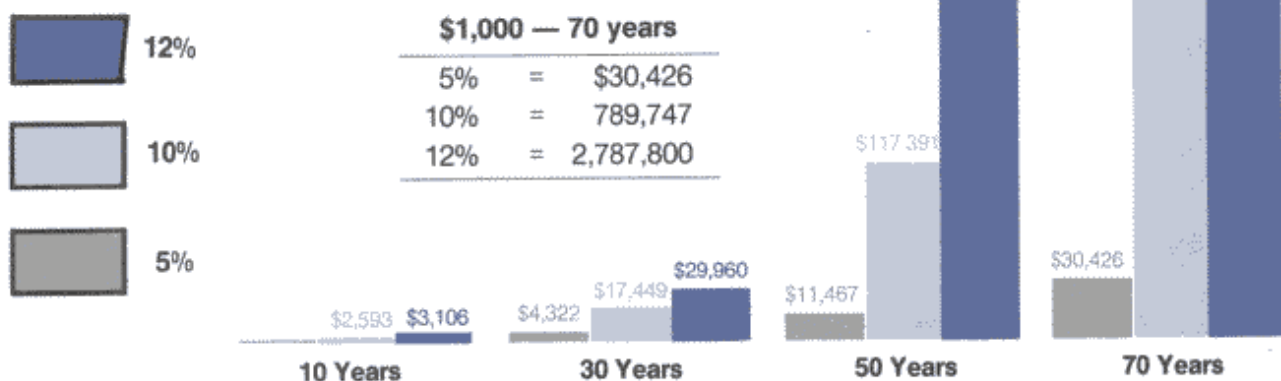
Solution: *Just one or two percent of interest compounded over a number of years can be the difference in thousands and thousands of additional dollars for you.*

Don't ask me how it all works — it just works. By using time, money and a fair rate of return, you can really take advantage of one of the most amazing financial concepts of all: the magic of compound interest.

Take a look:

The chart below shows what happens if you invest a lump sum of \$1,000 at three different rates of interest — 5%, 10% and 12%. You can see what a difference a few additional percentage points can make long-term in the growth of your money!

THE MAGIC OF COMPOUND INTEREST LUMP SUM OF \$1,000 (one time only investment)*



*This chart is used for illustration of compound interest only; no provision is made here for estate or income taxes.

Looking at the figures, I realized that after 10 years my money was really starting to grow. After 20 years, the difference was considerable. After 30 years, the compounding was really working its "magic." The chart at right also emphasizes the difference a few percentage points of interest can make. After 30 years, just by earning 10% interest instead of 5%, the difference would be \$126,059!

I found also that the magic of compound interest worked the same way with monthly investments.

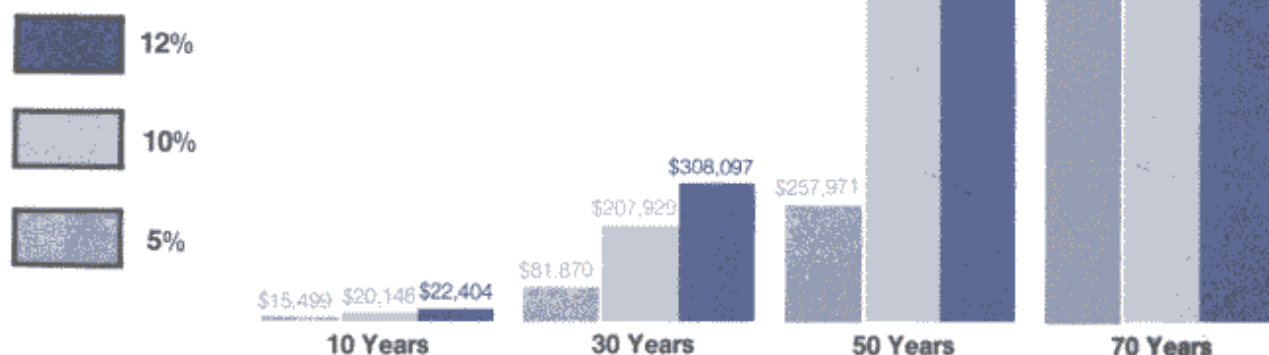
This chart shows what happens when you invest \$100 each month (put it in at the first of the month) at our three sample rates. Again, the difference in the total amount of money you accumulate at the different rates illustrates just how important a few extra percentage points of interest can be.

THE MAGIC OF COMPOUND INTEREST

\$100/MONTH
(put in at first of month)*

\$100/mo. — 70 years

5%	=	\$725,219
10%	=	\$9,970,185
12%	=	\$29,648,062



That's when I first realized that to really achieve Financial Independence, I had to apply every tool available to me.

*This chart is used for illustration of compound interest only; no provision is made here for estate or income taxes.

RULE OF "72"

Another important concept in understanding the magic of compound interest is the **Rule of "72!"** Your money will "double" at an exact point by **dividing 72 by the % of interest!**

72 — 1% interest = 72 years*

72 — 3% interest = 24 years

72 — 6% interest = 12 years

72 — 9% interest = 8 years

72 — 12% interest = 6 years

72 — 15% interest = 4 years, 10 months

Let's invest **only \$5.00 each month** and see how important it is for you to get **a little bit higher** return on your investment. The following group illustrates what **3% more interest** will do for you.**

\$5/month
compounded annually

Years	Interest Rates					
	1%	3%	6%	9%	12%	15%
10	631	699	816	955	1,120	1,315
20	1,328	1,638	2,278	3,217	4,599	6,635
30	2,098	2,901	4,896	8,572	15,404	28,159
40	2,949	4,597	9,585	21,248	48,965	115,233
50	3,889	6,877	17,981	51,258	153,199	467,498
60	4,927	9,941	33,018	122,301	476,933	1,892,606
70	6,073	14,059	59,947	290,487	1,482,403	7,657,963

The "Magic of Compound Interest" is truly amazing!

* If you had invested \$1,000 and received 1% interest it would have grown to \$2,000 in exactly 72 years.

** Income taxes may be due annually on the interest earned even though the money is invested and is not a part of your "disposable" income.

IT DOESN'T TAKE MUCH

You don't have to have a fortune to invest to enjoy the magic of compound interest. Look at these simple examples of how you can accumulate a substantial amount of money by "investing" in a small way.*

NO. 1 — If you invest the money used to purchase your afternoon soft drink:

\$.50/day @ 5 days/week = \$10.00 month

	10 yrs.	20 yrs.	30 yrs.	40 yrs.	50 yrs.	60 yrs.	70 yrs.
5%	\$1,559	\$4,127	\$8,357	\$15,323	\$26,797	\$45,695	\$76,820
10%	2,065	7,656	22,793	63,767	174,687	474,952	1,287,781

NO. 2 — If you quit smoking cigarettes:

\$1/day for 30 days = \$30.00 month

Yrs.	5%	10%
10	\$ 4,677	\$ 6,195
20	12,381	22,968
30	25,071	68,379
40	45,969	191,301
50	80,391	524,061
60	137,085	1,424,856
70	230,460	3,863,340

*Income taxes may be due annually on the interest earned even though the money is invested and is not a part of your "disposable income." Calculations based on monthly compounding of interest with stated nominal interest rates.

NO. 3 — If you save \$1 a day:**\$1/day @ 5 days/week = \$20.00 month**

Yrs.	5%	10%
10	\$ 3,118	\$ 4,131
20	8,254	15,313
30	16,714	45,586
40	30,647	127,535
50	53,595	349,375
60	91,390	949,904
70	153,640	2,575,561

You see, it doesn't take a lot of money to begin "cashing in" on "the magic of compound interest." It truly is amazing!

CONSISTENCY MAKES THE DIFFERENCE

Problem: *Most people don't plan to fail, they fail to plan.*

Solution: *Set a goal, develop a systematic savings plan, and STICK TO IT.*

Invest on a Regular Monthly Basis

Above all, save regularly.

To develop a successful savings and investment program, you first must decide what you want to accomplish financially, then decide **how** you want to do it.

1. ESTABLISH A GOAL.
2. DECIDE UPON A PLAN.

Sit down with your spouse and other family members and decide what you want to achieve. What are your goals? A home? A college education for your children? Goals are a personal thing, and everyone has different goals and priorities. The important thing is to have your own family's goals clearly set out so that you'll have a clear view of what you're working for.

One warning. Don't forget retirement. I know it seems like a lifetime away, plus it doesn't seem as exciting a goal to work toward as a new house or travel plans. But the adage, "time-flies" is true, and retirement time will come around whether you plan for it or not. Be smart. Retirement planning should be one of everybody's goals.

After you've set your goals, decide upon a plan to achieve them. Determine how much you can afford to save and whether you will do it weekly, monthly or whatever. (Refer back to the chart on page 14 to see how your money will grow over a period of time.) Do what suits you best — but do it **regularly**.

PRINCIPLE #4**ESTABLISH AN
EMERGENCY FUND**

Problem: *Most people begin to save money, then withdraw it when emergencies arise. They lose not only their initial savings goals but often a part of their investment because they terminate their plan prematurely.*

Solution: *Before you begin a long-range investment program, have three months' income set aside in an emergency fund.*

Save three months' income.

An emergency fund is critical to your financial success. Just because you never know what could happen, it's a good idea to have a reserve fund to draw from in the event of an unexpected, fairly major expense.

STEP #1: SAVE THREE MONTHS' INCOME FOR EMERGENCIES

I believe you should have a goal of accumulating the equivalent of three months' salary in your emergency fund. That way you're prepared for the worst. Your family's breadwinner might lose his or her job; a serious medical problem could arise; or a major household repair could be necessary (say, the furnace breaks down in the coldest month of the year). There are so many minor disasters that could occur, and they seem to happen when you're least expecting them. With your emergency fund in good order, you're protected against being "wiped out" financially or having to remove every cent from your long-range savings and retirement vehicles.

STEP #2: REMEMBER THE MEANING OF "EMERGENCY"

Remember, your "emergency" fund is just that — it's ONLY for emergencies. While it is a "put and take" account, in the sense that you deposit and withdraw from it as necessary, it should not be used as extra money or "play money." Family vacations, new clothes or other "luxury" expenses should be financed through money set aside from your regular take-home pay, and be separate from your emergency fund.

You should budget for your emergency fund the same way you budget for other expenses, particularly if you are starting from zero. If your budget allows, you can deposit a portion of your investment dollars into your emergency fund, and deposit the overflow into a long-term investment instrument.

**Emergency Funds
"Dangerously Low"**⁶

A study by Purdue University concluded that, in 1983, 77% of all families had less than two months of gross household income in checking and savings!

If money is very tight, some people use part-time jobs as a means of building up cash for their emergency fund. Making a 90-day commitment to some type of part-time work, and putting all your part-time income in your emergency fund, is a great way to build the "three months' income" you need as well as a deep sense of security and satisfaction in knowing that you're covered in the event of an unexpected expense.

STEP #3: AVOID SAVINGS PLANS THAT "TIE UP" YOUR MONEY

It is critical that your emergency fund is established so that it is accessible in the event it's needed. Many savings plans that pay a good rate of return also have heavy withdrawal penalties. These won't work for your emergency fund.

Consider Money Market Funds

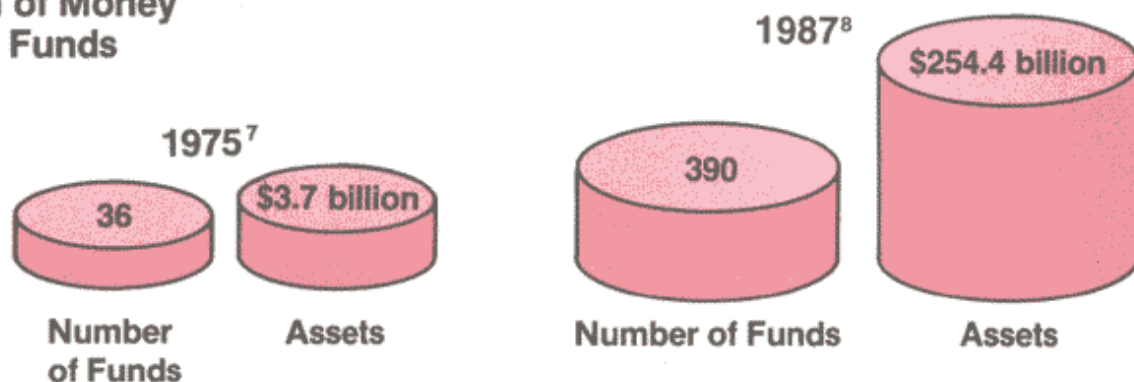
Money market funds have gained popularity in recent years as safe, high-return investments instruments. Here's how they work:

The principle of money market funds is simple. Because the average person doesn't have the huge sums of money required to invest in very high-rate savings instruments, money market fund groups accept smaller amounts from many investors and "pool" the money to invest in these higher-return vehicles.

Money market funds allow the "average" person to receive a higher rate of return without having to put up \$10,000 or \$100,000. Your investment is accessible if you need it, plus many funds offer checkwriting privileges (although that privilege should be used only when necessary)!

In the past, money market funds were something only sophisticated investors knew about. But they have become extremely popular in recent years as average consumers searched for ways to gain ground in an inflationary economy. The chart below shows how their popularity has increased.

Growth of Money Market Funds



An emergency fund means protection.

Your emergency fund cannot cover major crises such as: major medical problems, serious auto and home accidents, and fire. These catastrophes must be provided for in other ways, such as homeowners, health and auto insurance.

Today, money market accounts are offered by many savings and loan associations, banks and brokerage firms. Some are even insured by the FDIC and FSLIC, agencies of the federal government.

I recommend money market funds as the best short-term, high-return investment instrument that provides easy access to your money. However, savings plans at banks, savings and loans, and credit unions will work, too. Just be sure to avoid the type of "savings certificates" that tie up your money for 1-2 years.

Another caution: Don't confuse money market funds with mutual funds, a long-term investment vehicle that we'll talk about in Principle #8.

Remember, the main point of an emergency fund is PROTECTION. Its purpose is to provide a "cushion" against unforeseen problems and disasters. Get started now on establishing and building your emergency fund. The sooner you do that, the sooner you'll be able to concentrate on your long-range financial plan — and the sooner you'll be able to see big results. And that's the name of the game!

PRINCIPLE #5

BUY THE RIGHT LIFE INSURANCE

Problem: *Most American families don't have enough life insurance protection because they buy the wrong kind of life insurance.*

Solution: *Buy only term insurance, which is less expensive now, and invest the difference.*

One of the most important expenditures the average family makes in its lifetime is the purchase of life insurance. It is also one of the most misunderstood. It is absolutely critical that you make the right decision about the kind and amount of life insurance to buy.

What's Its Purpose?

Why life insurance?

First, you must understand the purpose of life insurance. It is to protect against premature death. Life insurance does not "insure life" so much as it "protects your dependents" from the loss of financial support. Ideally, you will eventually acquire, through savings and investments, a substantial sum of money to provide this protection.

What Are You Paying For?

Second, you must understand what you are paying to protect. Most people earn from \$480,000 to \$1,440,000 during their lifetime. (Example: an average of \$12,000 per year x 40 years = \$480,000.) It is the loss of that earning potential that makes life insurance a necessity. Life insurance is a substitute for the cash and other wealth that your family would accumulate if the breadwinner were living.

What Should You Buy?

Third, you must understand what kind you should buy. I recommend **inexpensive term life insurance only**.

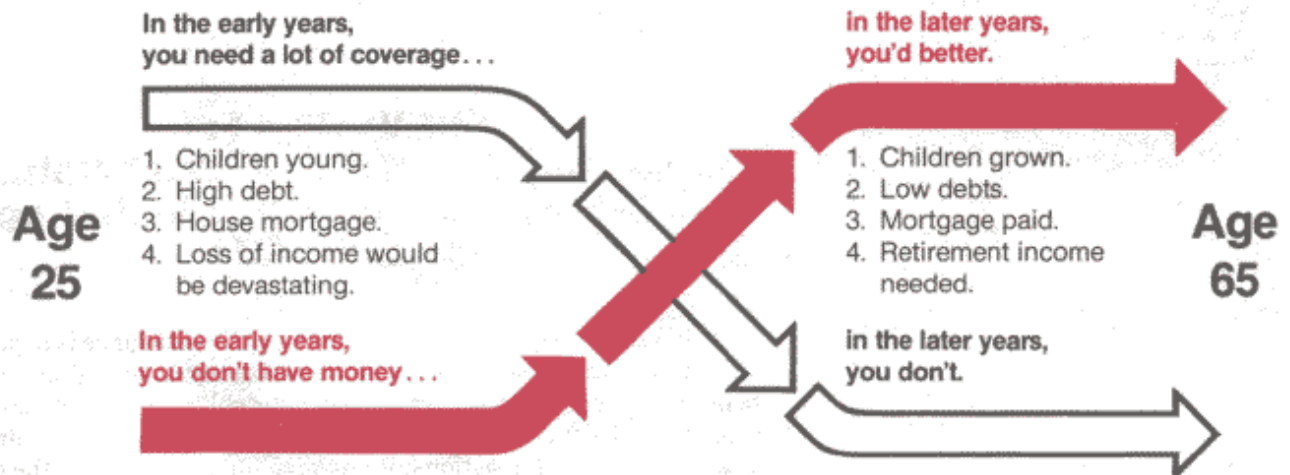
Life insurance buys time.

The most common misconception about life insurance is that it is a permanent need that each family has. This is totally untrue! Life insurance is a way to buy time until you get your personal financial estate in order. You need more coverage when you're young, less when you're older.

The Theory of Decreasing Responsibility

The basic concept behind my beliefs about term insurance protection is a simple theory with a long name — the “Theory of Decreasing Responsibility.” It simply means that your need for insurance is greater when your responsibilities are greatest, i.e., when your children are young, you have a mortgage payment and so forth. As you get older, your responsibilities decrease — children are grown and on their own, routine payments are reduced, your home is paid for. This is the time that you need very little “death protection” in the form of insurance, and should rely instead on accumulated cash for your retirement years.

The Theory of Decreasing Responsibility illustrates the wisdom of term insurance as a wise insurance choice. You buy low-cost, high coverage term in your early years, and “invest the difference” between the cost of term and whole life insurance in a promising investment program. As you grow older, your insurance coverage decreases, and your accumulated savings, hopefully, increase.



Remember Your Goal

Your major goal is to become self-insured by age 65 or sooner. Life insurance protects your family until you've had time to build financial security. Term insurance, in my opinion, best fills that temporary need.

THE THREE "NEVERS" OF BUYING LIFE INSURANCE

There are three basic mistakes that I feel most people make when considering life insurance. In my years of counseling people about financial strategy, I've developed what I call my "three NEVERS" for life insurance buyers.

"I think it's a rip-off to sell cash value life insurance. The insurance industry invented cash value life insurance to get more of your premium dollars to invest for themselves."

— Walter S. Kenton, Jr., in USA Today, January 17, 1983, Author of *How Life Insurance Companies Rob You and What You Can Do About It*

NEVER #1: NEVER BUY ANY KIND OF "CASH VALUE" OR WHOLE LIFE INSURANCE, INCLUDING UNIVERSAL LIFE.

NEVER #2: NEVER BUY LIFE INSURANCE AS AN INVESTMENT.

NEVER #3: NEVER BUY A LIFE INSURANCE POLICY THAT PAYS DIVIDENDS.

"NEVER" #1:

Never Buy Any Kind of "Cash Value" or Whole Life Insurance Including Universal Life.

I believe that the main reason for buying life insurance is to protect your family against the death of the breadwinner. This "death benefit" is the most important part of your policy. Some policies have other features, including cash value benefits, loan rights, withdrawal options or surrender options, if you give up some or all of the death benefit. But if you die, **no matter how much you pay**, your life insurance only pays the death benefit.

The tables on the following page will help you compare the cost of coverage for different kinds of insurance offered by several companies. (I am assuming in these charts that the coverage ends with death in twenty years. I'm not considering the special features just mentioned, which apply if you give up some or all of your death protection coverage. Generally, the premium of a whole life policy remains level during the term of the policy, whereas the premium of a term policy may increase with age.)

When you pay the premium for 20-year level term, annual renewable term, and 5-year renewable and convertible term policies, you pay for death protection **only**. The other policies contain benefits



".... term insurance is the wave of the future, and the nation's consumers will be the real beneficiaries."

— Michael Pertschuk, Former Chairman, Federal Trade Commission, 1985

like cash value in addition to death protection. The cash value increases through the years, and may be borrowed against or used to pay premiums on the policy. **But**, you pay extra for these benefits.

That is why whole life, 20-pay life, endowment at 65, universal life and other similar products cost more now than the pure protection of term insurance. The figures below do not take into account the time value of money.

Premium Cost For Life Insurance Male, Age 35: Death Benefit — \$250,000

	Policy ^a	20-Year Average Annual Premium	20-Year Total Premium
20-Year Level Term†		\$450 (Preferred)	\$9,000
		\$573 (Standard Non-Smoker)	\$11,450
Annual Renewable Term*		\$931 (Non-Smoker)	\$18,618
5-Year Renewable & Convertible Term*		\$952 (Non-Smoker)	\$19,038
Universal Life†		\$2,000 (Non-Smoker)	\$40,000
Adj Whole Life†		\$2,748 (Non-Smoker)	\$54,950
Whole Life*		\$3,185 (Non-Smoker)	\$63,700
20-Pay Life*		\$5,040	\$100,800

*Dividends on participating (PAR) products are not included in this comparison. Dividends can significantly reduce the cost of insurance.† Under adjustable premium plans (adj) the company may change the premium (higher or lower).

Always buy “no-frills”, inexpensive term life insurance. Frills aren’t free. As in anything else, you pay for all those fancy extras. You should buy life insurance exactly like you buy other kinds of insurance — automobile, homeowners, health — **for protection only.**

Wouldn’t you think it was silly if someone tried to sell you automobile insurance that included a long-term savings plan? The same is true for life insurance. It pays to buy the cheapest protection possible.

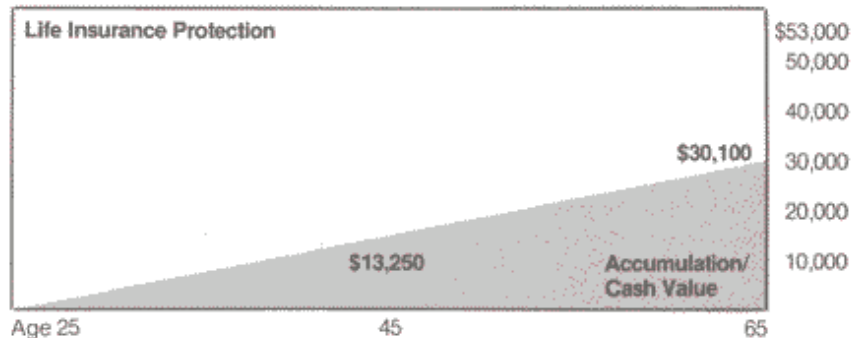
Remember: Never, never, never combine your savings with your life insurance.

Look at the choices . . .

CHOICE #1 — Cash Surrender Value Life Insurance "The Bundling Concept"

"Bundling" is the MAJOR FLAW of cash value insurance. With this type of policy, you are required to buy your death benefit and your cash value benefit in ONE POLICY. By bundling your protection and your cash accumulation, you get minimal coverage if you die (only \$53,000) and less than adequate cash for retirement if you live.

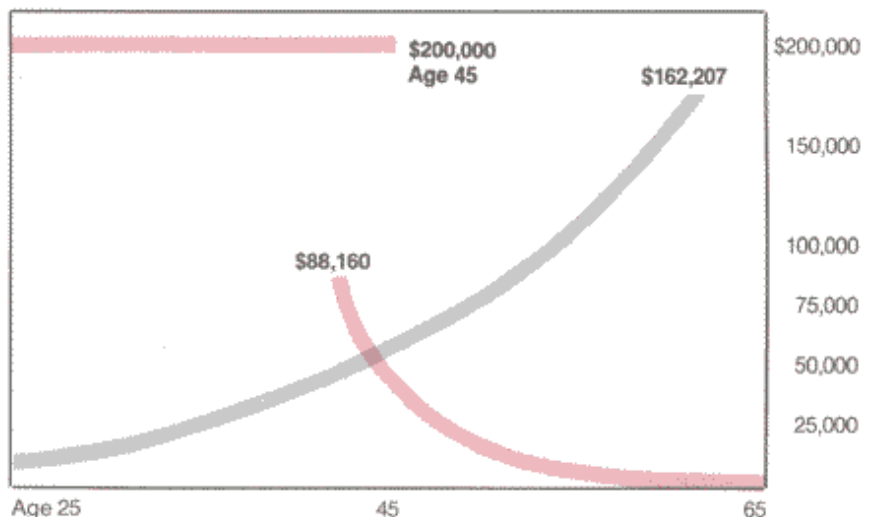
Age		(\$600 Outlay)
25	Protection	\$53,000
65	Protection	\$53,000
	Accumulation/ Cash Value	\$30,100



CHOICE #2 — Buy Term and Invest the Difference "A Better Way"

For the same \$600, you can buy low-cost term insurance and get more protection in your peak responsibility years (almost four times more!). AND, you can invest the "difference" in cost in a SEPARATE savings plan that earns higher interest. You control both, and you get both — protection when you need it most, and possibly over four times the amount of cash at retirement than you'd get by "bundling."

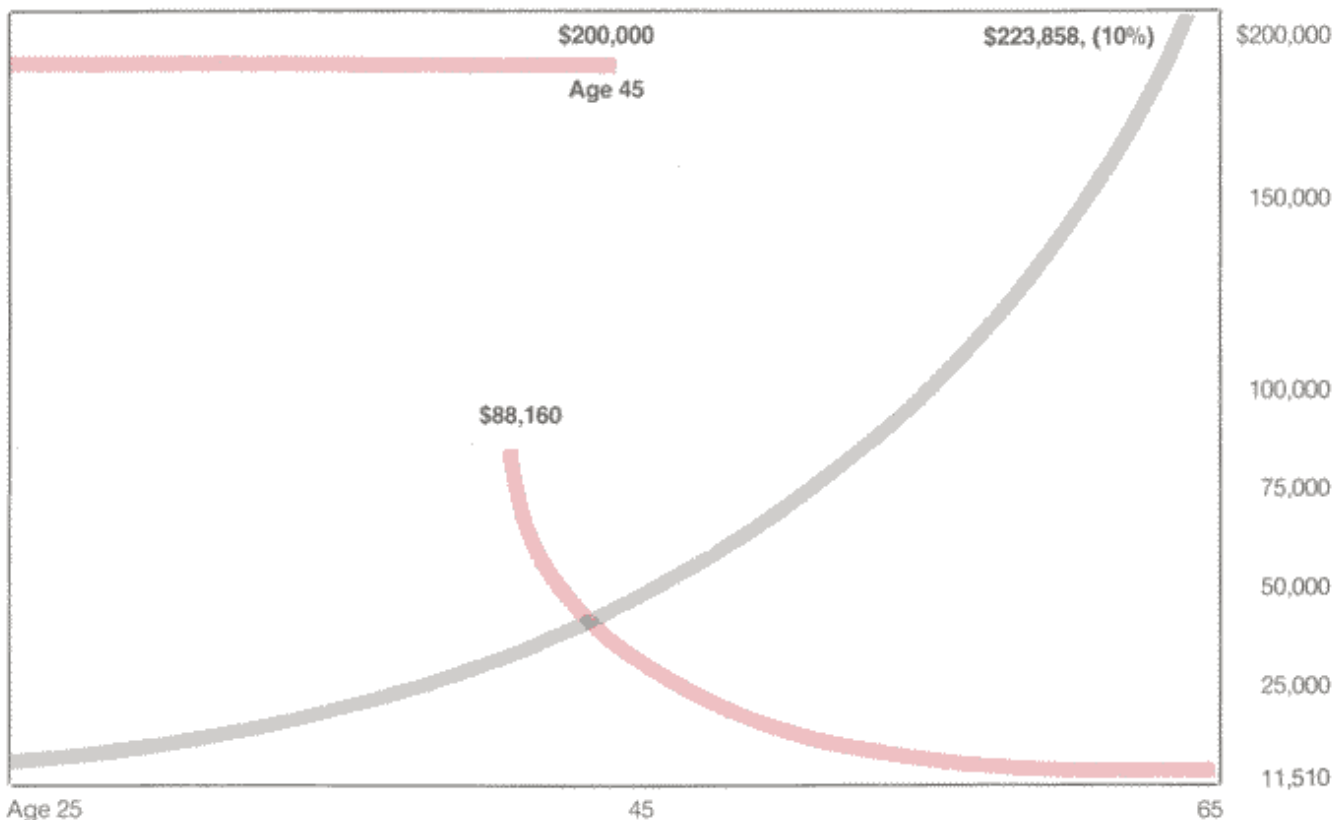
Age		Choice #1 (\$600 Outlay)	Choice #2 (\$600 Outlay)
25	Protection	\$53,000	\$200,000
	Protection	\$53,000	\$11,510 + Accum.
65	Accum.	\$30,100	\$162,207 (10%)



THE BEST CONCEPT AVAILABLE TODAY

CHOICE #3 — Buy Term and Invest the Difference in an IRA "The Best Concept Available Today"

Enactment of the IRA by Congress was the FINAL NAIL IN THE COFFIN of cash value insurance. No savings plan can compete with the benefits of an IRA. BUT . . . no insurance policy QUALIFIES as an IRA (including Universal Life), so no cash value policy offers the tax advantages of "buy term and invest the difference in an IRA." I believe that it's, WITHOUT A DOUBT, the best concept available in America today.



Age		Choice #1 (\$600 Outlay)	Choice #3 (\$600 Outlay)
25	Protection	\$53,000	\$200,000
65	Protection	\$53,000	\$11,510 + Accumulation
	Accumulation	\$30,100	\$223,858 (10%)

NOTE: **Outlay** refers to annual premium. **Protection** refers to face amount of the life insurance policy. **Accumulation** refers to cash value of the life insurance policy.

Figures used are based on the average whole life premium rates and cash surrender values of 10 of the largest stock life insurance companies (guaranteed cost) in the United States.

Universal Life, Variable Life, Adjustable Life, etc. are all superior forms of Cash Value Life Insurance. But that's not much to brag about. No form of Cash Value Life Insurance can compare with "Buy Term and Invest the Difference in an IRA" — the best concept available to meet the needs of American families today!

"Millions of consumers who have entrusted their retirement savings to this industry will find that the 2 to 4 percent 20-year return on their cash value insurance policies will have been almost completely eroded by inflation."

— FTC Staff Report, 1979

"I believe the purchase of pure term insurance and the practice of investing the difference in an IRA is the only way to go for future financial security."

— Arthur Milton, *News About Life Insurance*, 1986

"NEVER" #2 Never Buy Life Insurance as an Investment

Life insurance should NEVER be bought as an investment, savings or tax shelter. There are plenty of sound and potentially rewarding long-range investment opportunities in the marketplace today. Your investment dollars should be focused toward one of those vehicles. Your insurance policy is designed to serve a totally different need.

There are many good reasons NOT to buy life insurance as an investment, but here are a few of the most important:

1. Historically, returns have been low.

The Federal Trade Commission Staff Report of July 1979 studied return on investment for policies considered during its period of research. *"The average rate of return paid whole life policyholders in 1977 was estimated to be from 1.2 to 1.85 percent, with the best estimate of 1.3 percent."*

*"With 55¢ of each premium dollar going into what are essentially savings accounts, buyers and holders of whole life insurance are losing billions of dollars a year."*¹⁰

The bottom line is this: even though the rate of return on policies issued since those studied in 1977 may be somewhat different, none of us can afford to lose money. In the last 10 years, the rate of inflation has made getting a good return on your money a necessity. Most people need every cent they can get, just to make ends meet. They can't afford to make a poor investment.

The chart on the next page shows the percentage of return you would have achieved on different types of investments in 1977, as computed by the FTC staff. Note that cash value insurance **held for only five years** had a return MINUS 9% to MINUS 19%. You had to have held a cash value policy for 10 years to reach a positive return rate. Some investment!

The chart below shows the extent to which leading sellers of Universal Life policies are actually living up to their promised rates.

Universal Life Policies

Company (Policy Name)	Quoted Interest Rate on Savings Portion	Rate of Return*		
		1 Year	5 Years	10 Years
Prudential (Appreciable Life)	7.75	-95.07%	-12.14%	2.04%
New York Life (Target Life II)	9.90	-100.00%	-3.27%	3.94%
Metropolitan Life (Flex Premium Life)	8.50	-83.73%	-2.89%	4.28%
State Mutual (Exceptional Life II)	8.00	-100.00%	1.32%	6.39%
Equitable Life of N.Y. (Flex Prem Adj Life)	8.25	-72.16%	-0.69%	5.47%
First Colony (Life One Plus)	9.00	-100.00%	-5.90%	4.98%
John Hancock Mutual (Flex Prem Adj Life)	8.00	-100.00%	-10.87%	2.81%
Aetna Life (Aetna's Univ Life)	8.50	-82.36%	2.11%	6.69%
Kentucky Central (VIP Plus)	11.00	-100.00%	-8.62%	5.69%
Connecticut General (Advance)	9.00	-100.00%	-24.06%	4.27%
American National (UL III)	9.00	-98.63%	8.28%	5.19%

For a 35-year-old man, nonsmoker, \$100,000 death benefit and \$1,000 annual premium.

*Rate of return calculated using the Linton yield method, assuming companies' current interest rates and expense charges, and term insurance rates commonly used by consumer advocates.
Source: 1987 *Best's Flitcraft Compend*.

"Consumers Union has advised consumers for some four decades that most people are better off buying term policies."

— Consumers Reports, August 1978

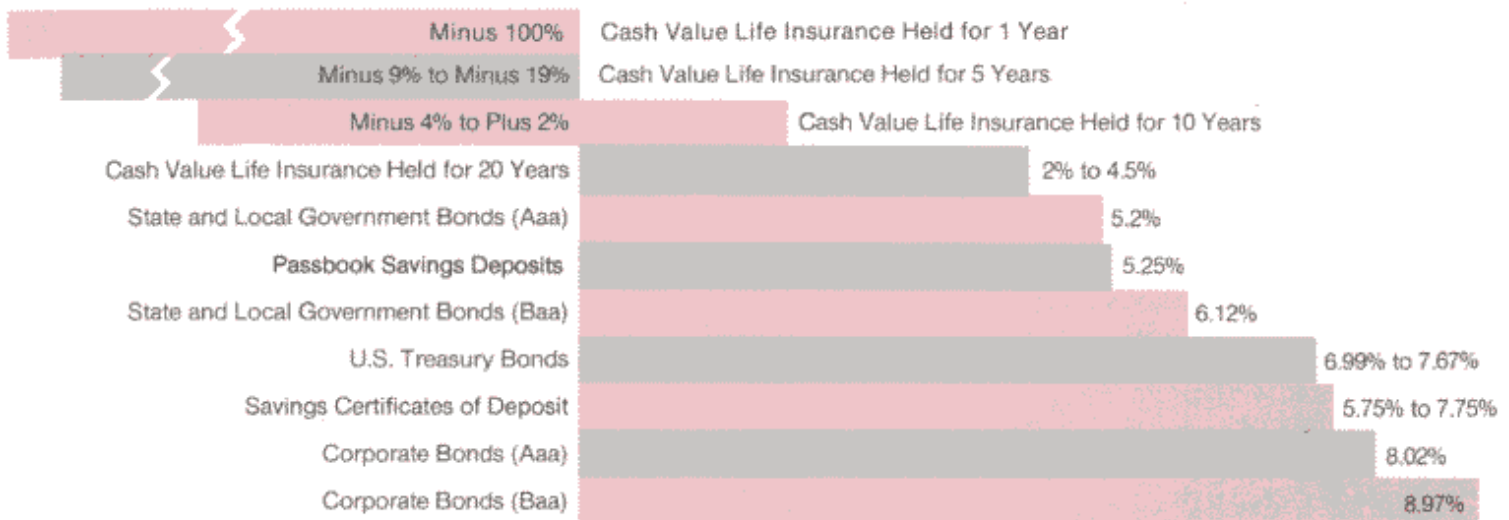
What else is there to say? UL is nothing more than a fancier version of the old whole life "cash value" policy. It's still "bundled" and it's still no way to save money.

3. No cash value product can compete with an IRA.

In chapter 6, I'll talk more about the Individual Retirement Account (IRA), but here I'll simply say that in my opinion the IRA is unbeatable as an investment instrument. There's no doubt in my mind that the IRA is the best investment vehicle available today for Middle Americans, people like you and me. No one should invest in any after-tax investment until they've at least taken advantage of the IRA.

COMPARATIVE RATES OF RETURN IN INVESTMENT INSTRUMENTS¹¹

% RETURN



2. Returns on new forms of cash value insurance are unreliable.

Once consumers started getting wise to the low return they were earning on cash accumulation in life insurance policies, the industry began designing new insurance plans that featured higher yields. Universal Life was their answer, a type of life insurance that attempted to couple term insurance with an investment plan. Some of the forms of Universal Life featured variable interest rates tied to T-bills and other market indicators. Universal Life, or "UL," as it is called in the industry, was supposed to be the wave of the future.

Unfortunately, recent examinations of the product show that UL's promised returns may have been just that — promises.

A February 1986 *Wall Street Journal* article, titled *Return on Universal Life Insurance Can Be A Lot Less Than Expected* expressed concern that UL policies were not living up to their sales pitches. Look what one actuary interviewed by **WSJ** had to say:

"There are so many claims being made about high interest rates paid on policies. But when they subtract all these charges, the yield may not be anything like that."

And two years later, in a March 1988 *Wall Street Journal* article titled *Lagging Returns on Universal Life Plans Create Disenchantment Among Holders*, it appears that the case against Universal Life still exists:

"[A Universal Life policy] has limited guarantees, and much investment risk is transferred to the holder."

And, a professor of insurance added:

"With Universal Life policies, insurers face an 'era of disillusionment' during which 'it will be difficult to rebuild public confidence in the industry'."

The chart below shows that common stocks in the Standard & Poor's 500 Composite Index have performed better than the "loanership" investments shown during the period from 1926 through 1986.

**Hypothetical
IRA Values at Age 65
Age 30
\$2,000 Annual Outlay
in a 28% Tax Bracket**
(Life Insurance Premiums and
Benefits Not Included.)**

\$861,327*

REMEMBER: You start with an annual pre-tax outlay of \$2,000. Then you have two choices:

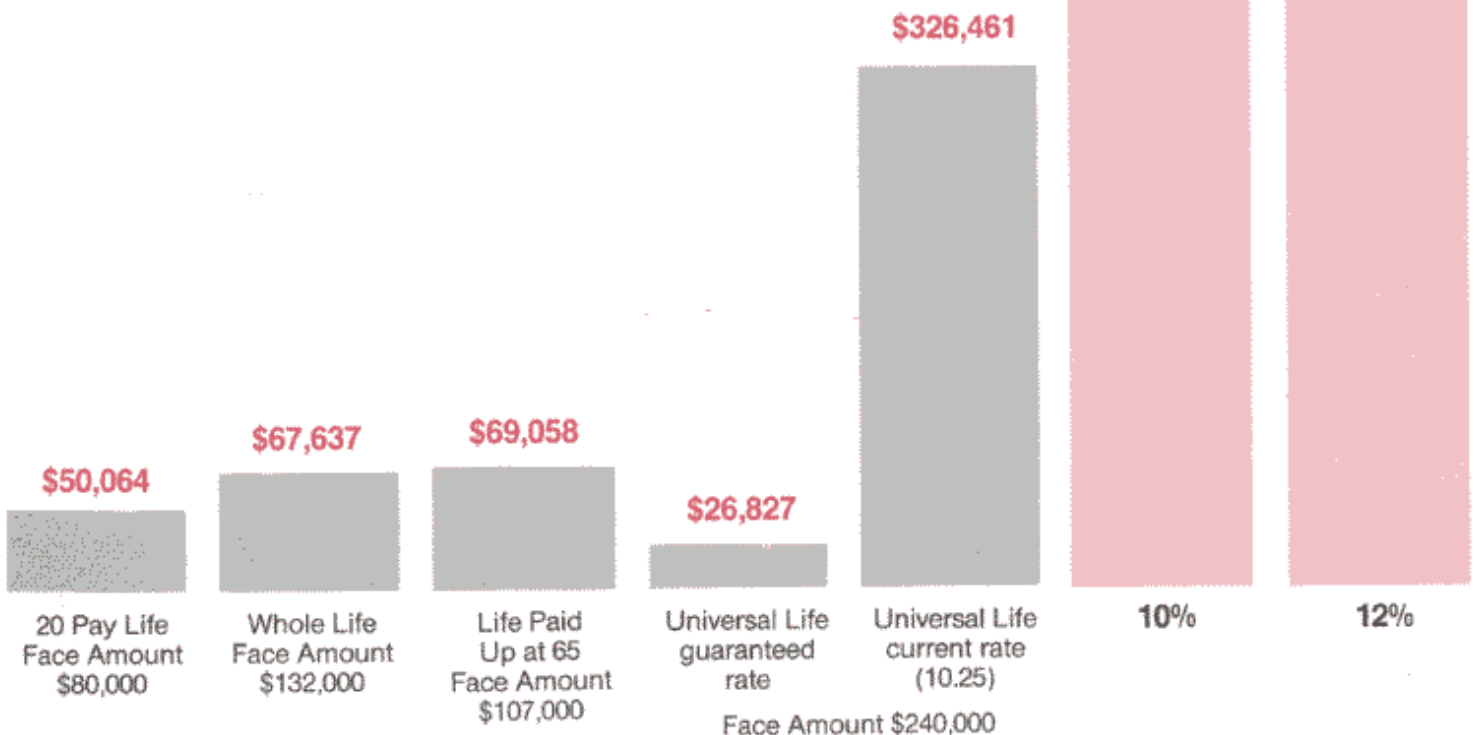
A) Cash value insurance = \$1,440 B) IRA = \$2,000

If you are in a 28% tax bracket and you invest your \$2,000 in this vehicle, you will have \$1,440 to invest after taxes. You pay \$560 in taxes!

Putting your money in this vehicle gives YOU the total \$2,000 for investments! (In a 28% bracket, you save \$560 that would have gone to the IRS!**)

**Age 30
Nonsmoker Premiums Used When Available
\$1,440 After Tax Annual Cash Outlay in a 28% Tax Bracket
(Premiums also pay for death protection
if policy not surrendered.)**

Cash Values at Age 65



Source: *Who's Right for the American Consumer*, by Arthur Milton. Source of 20 Pay, Whole Life and Life Paid Up at 65 information: 1986 Policy Statistics Service *The Diamond Life Bulletins* as published by *The National Underwriter*. Figures used are based on the average 20 Pay Life, Whole Life and Life Paid Up at 65 premium rates and cash surrender values of certain of the largest stock life insurance companies (guaranteed cost) in the United States.

Universal Life figures used are based on the average premium rates and cash surrender values of 5 leading life insurance companies in the United States as prepared by a leading actuarial consulting company. Based on current rates, death benefit exceeds \$240,000 at older ages due to cash value accumulation.

*These values are subject to applicable income taxes upon distribution.

**Tax penalties apply to early withdrawals. The 1986 Tax Reform Act limits the deductibility of the IRA for adjusted gross income over \$40,000 for joint returns and \$25,000 for individuals with an employee pension plan. However, the new tax law did not affect the IRA deferability or earnings.

4. If you die, you cannot collect your cash values.

Most people who buy traditional cash value life insurance don't realize one of the fundamental facts about it — that you collect your cash values only if you remain alive during the course of your policy and surrender the policy. If you die, your beneficiary gets the death protection, but **not** the cash accumulation in the policy.

For example, if you buy a policy with a face amount of \$200,000 and accumulate cash values of \$50,000, your family gets the \$200,000 if you die — but they **DON'T** get the \$50,000.

\$200,000 — Face amount
+ \$50,000 — Cash values = **ONLY \$200,000**
Death benefit

What kind of arithmetic is that? Any serious-minded consumer would have to ask the question, "Why would I pay more money for a policy with a cash accumulation feature if my family doesn't get that cash back if I die?"

You know what? In my opinion, the only reasonable answer is "I wouldn't!"

5. You must pay to borrow your cash values.

One of the main selling points of cash accumulation policies is that the policyholder can borrow against those values. What the consumer isn't always told is that **you must pay interest to borrow this money!** Granted, it may be, in some cases, a lower amount than you would pay at a bank, but it's still substantial.

And, if you should die before you've paid back this loan (sound ridiculous?), the amount you borrow is **DEDUCTED** from the death benefit your family receives.

For example:

\$50,000 Face amount
- \$10,000 Loan
\$40,000 Death benefit

This makes no sense to me, and I don't think it will to you, either. Why pay to borrow money you've paid extra to accumulate when there is a better way?

WARNING:

Most cash value policies contain a clause that allows the insurance company to hold your cash values for up to six months after you request them.

"... no other product in our economy that is purchased by so many people for so much money is bought with so little understanding of its actual or comparative value."

— FTC Chairman Michael Pertschuk, FTC news release, 1979

"NEVER" #3: Never Buy a Life Insurance Policy That Pays Dividends.

In my opinion, buying a life insurance policy that pays dividends is a poor use of your insurance dollars. Historically, policies that pay dividends have had higher premium rates than non-dividend products.

"Most people, we concluded, would come off better buying term insurance instead of whole life insurance."

— Consumer Reports, February, 1974

Consider what the insurance companies themselves argued in the U.S. Treasury Decision Number 1743.¹²

"Dividends declared by participating companies are not dividends in a commercial sense of the word, but are simply refunds to the policyholder of a portion of the overcharge collected."

The chart below compares the annual premium cost of two whole life policies sold by the same company. One policy pays dividends, the other does not. The difference in premium costs indicates the additional cost to the buyer for his dividend privilege.

Comparative Annual Whole Life Premiums¹³

(Cost per \$1000, excluding policy fee)

The chart below compares the annual premium costs of two "Life Paid up at 90" policies sold by the same company.

At Issue Age	Whole Life Policy with Dividends	Whole Life Policy Without Dividends	Difference in Cost	Percentage Difference
20	\$ 14.96	\$ 10.48	\$ 4.48	43%
25	16.96	12.36	4.60	37%
30	19.53	14.75	4.78	32%
35	22.83	17.74	5.09	29%
40	27.14	21.60	5.54	26%
45	32.76	26.54	6.22	23%
50	40.17	32.73	7.44	22%
55	49.96	40.80	9.16	22%

Remember:

Dividends are nothing but a partial return of your "overcharge."
Don't be fooled by a promise of "high dividends!"

RULES FOR BUYING LIFE INSURANCE

Shop for the best insurance buy.

1. BUY ONLY LOW COST TERM INSURANCE

I believe term insurance is right for average consumers. Average the annual cost of your policy for your period of insurance (10, 15 or 20 years) to make sure you are getting a good buy . . . many companies have jumped on the bandwagon recently, offering cheap term for 1 or 2 years. Their costs then skyrocket.

2. BUY ADEQUATE COVERAGE

Buy enough insurance coverage to really protect your family. A good rule of thumb is to start with \$100,000 to cover the breadwinner and add \$50,000 more on the breadwinner for each child. Or, multiply your annual income by eight to give a "ballpark" figure for minimum coverage needed.

For example: For a family with two children, \$100,000 + \$50,000 + \$50,000 equals \$200,000 on the breadwinner for adequate protection for the family. \$200,000 of life insurance would give survivors an annual income of \$22,300 per year for 20 years (assuming that the insurance proceeds earn 10% with annual compounding interest and that income is payable in monthly installments.)

3. IF YOU HAVE A SPOUSE, YOU NEED TO BUY INSURANCE ON THE SPOUSE ALSO, BUT NOT AS A SEPARATE POLICY.

A policy to insure against the death of your spouse can be bought very inexpensively as a **rider** on your policy.

Example

	Amount	Yrs. 1-20 Premium*
Age 30	\$ 25,000	30.00
	50,000	60.00
	100,000	120.00
	500,000	600.00

Never buy a separate policy for the spouse.

*Based on premiums of a leading insurance company for a non-smoking female:

4. NEVER BUY A LIFE INSURANCE POLICY ON CHILDREN.

I recommend no insurance on children or if you feel you must, then only enough for burial coverage (\$2,000 to \$5,000).

5. STAY AWAY FROM FANCY "OPTIONS"

Don't load up your policy with accidental death, option to purchase additional insurance, child riders and other unnecessary gimmicks. Buy only death protection on the breadwinner, with a possible exception being waiver of premium benefit.

Don't buy mortgage insurance.

Mortgage insurance is nothing but life insurance. Don't have a separate mortgage policy. The base policy on the breadwinner should be increased to add the proper amount of coverage for the home. The same is true for insurance on short-term "life" policies of any kind. Credit life is nothing more than a very expensive form of decreasing term insurance. You are **not** usually obligated to buy it when you purchase a car or other major items.

6. HAVE ONLY ONE INSURANCE POLICY PER FAMILY

Most life insurance policies you buy have a policy fee and administrative charges, usually around \$10-25. If you have a policy on yourself, your spouse, and your children — or several different policies on any one person — you are losing money.

Example: Six policies x a \$25 administrative fee for each = \$150.
One policy x \$25 = \$25.
With the \$125 left over, you could buy about \$150,000 of term insurance at age 30 and pay a whole year's premium!

7. IF YOU CAN FIND A NEW INSURANCE POLICY THAT IS BETTER FOR YOU AND YOUR FAMILY, BUY IT.

If it's better, buy it!

Replacing old, outdated items with newer, up-to-date ones is a fact of life. We do it every day in every area of our lives. We replace old clothing, old appliances, old cars, old services. The same principle applies with your life insurance policy. Many new, innovative insurance products have been developed in the last few years. If you're holding on to an old, outdated product that costs more for less protection than the newer policies, you would be foolish not to replace it with something more beneficial to you and your family.

"... the hard fact is that insurance should be bought for protection and investments should be made elsewhere ... you should protect your loved ones by buying term insurance, which costs much less than whole life, universal life or any other version of so-called 'permanent' life insurance. You'll save a bundle in premium costs and be able to invest those savings as you like."

— Williams Doyle, Syndicated Columnist, *The Detroit News*, 1985

When deciding whether to replace a present policy with a newer one, consider these points:

WHY SHOULD YOU REPLACE OLD POLICIES?

In my opinion, you should consider replacing an old policy or policies for the following reasons:

- People are living longer; because the cost of insurance goes down when mortality is low, most new insurance policies are cheaper than policies purchased several years ago.
- Inflation has made many older policies, with smaller face amounts, totally inadequate by today's standards.
- Most families need more insurance but can't afford another policy.
- If you have more than one policy, you can combine all your insurance protection in one comprehensive policy, perhaps at a cheaper rate.
- You can **SAVE MONEY** currently with one of the new, competitive term insurance policies on the market.
- If you have traditional cash value insurance, you're receiving a poor return on your cash values.
- The "dividends" you receive aren't really dividends.*
- If you borrow the cash values from your policy, you must pay 5%, 8% or more.
- With a whole life policy, you receive **either** your cash values (if you live) or the face amount of your policy (if you die), but **not both**.
- Newer kinds of life insurance policies (example-Universal Life) boast big rates of return. But this is nothing but a sham. An advertised 10% return may in reality be a minus 100% return in the first year, rising to only minus 20% after five years.
- Cash value life insurance **never, ever qualifies** for IRA, Keogh, and other qualified plans — the **real** tax shelters.
- Your cash values may be held by the insurance company — by contract — for up to six months after you request your money.

WHEN NOT TO REPLACE YOUR OLD POLICIES

There are some good reasons not to replace your present insurance policies. The most important are:

- You're in bad health and uninsurable.

*See page 37

- You have a good competitive term policy now and your old policy is cheaper than a new policy.
- You don't need life insurance.

HOW DO YOU REPLACE OLD POLICIES???

If you do find a better insurance buy, and wish to replace your old policy or policies with a new one, here are some guidelines you need to follow:

STEP 1 - Many state insurance departments require the agent to take your policies and make a complete detailed **comparison statement**. I **RECOMMEND** that you **require** the agent to complete this comparison even if his state does not have the comparison requirement.

STEP 2 - After carefully reviewing the comparison statement and determining that you can get more for your money — make an application with the new company. If you don't qualify, you get your money back. If you change your mind up to 20 days after you receive the policy, most states require the company to refund all your money.

STEP 3 - Don't ever drop your old policy until your new policy is issued and you have received it.

STEP 4 - Buy **ONLY** from a licensed agent.

These rules should help you get the maximum return on your insurance dollar. Consider them carefully when planning an insurance purchase or evaluating your present plan.

The final factor in your decision is choosing an insurance company that can serve your family's needs.

WHICH LIFE INSURANCE COMPANY SHOULD YOU USE?

Any reputable "legal reserve" life insurance company, regardless of size, is a pretty safe choice. However, before you decide on a company consider these features:

- Make sure that you clearly understand, not only the beginning monthly premium, but what your premium will be throughout the life of the policy. The rate of premium should not be subject to uncontrollable increases at a future date.
- As I mentioned before, average the annual premium cost for 10 to 20 years to determine the "real" average premium payment. Don't consider **ONLY** the first-year rate. Some companies offer an extremely low first-year rate, then drastically increase the cost in future years.
- Naturally, try to obtain the most features for the lowest possible cost. It pays to shop around. You'll be amazed at how much rates can vary between companies for the same coverage and protection.
- Consider a company with a commitment to the term insurance concept.

PRINCIPLE #6**MINIMIZE TAXES
WITH
"QUALIFIED PLANS"**

Problem: *Most Americans think only the wealthy can benefit from tax shelters.*

Solution: *Every American who pays taxes and is eligible should have a Qualified Plan [IRA, Keogh, SEP-IRA, 403(b) (7), 401(k)].*

Every wage earner has a tax problem.

Every wage earner in America today has a tax problem. In the last three decades, taxes have climbed at an alarming rate. And the more you earn the more you pay! Taxes are an important item to consider — because **it's not what you earn that counts — it's what you keep.**

The problem is that people do not understand the basic rules of the Tax Game! Once you understand how taxes are calculated and how simple it is to reduce or delay taxation — possibly even eliminate it — you can overcome this problem.

WHAT IS A QUALIFIED PLAN?

A Qualified Plan (QP) allows someone who earns money and is younger than 70½ years old to accumulate some of those earnings on a tax-deferred basis. I believe that everyone who pays taxes should try to maximize their contribution to whichever qualified plan(s) they are eligible.

LET'S TAKE A LOOK AT HOW A QP WORKS

The QP gives you two distinct advantages:

Short term — You may be able to take \$2,000, \$3,000 or more "off the top" of gross income at tax time thus decreasing taxable income, and possibly tax rate as well, and;

Long term — You defer tax on the earnings in the QP until you begin withdrawing funds during retirement.

Let's take a closer look at the immediate short-term advantage of an IRA investment versus a non-QP investment.

IRA

(Individual Retirement Account)

IRS

(Internal Revenue Service)

**Choose One
of the Above**

IRA

\$30,000 Before-Tax Income
2,000 Invested in IRA
28,000 Adj. B/T Income
4,080 Taxes (28% Bracket)
\$23,920 After-tax Income
for Living Expenses

Non-QP

\$30,000 Before-Tax Income
4,640 Taxes (28% Bracket)
25,360 After-tax Income
2,000 Investment Dollars
\$23,360 After-tax Income
for Living Expenses

You save \$560 in taxes IMMEDIATELY by starting an IRA!!

However, the advantages don't stop here! The following tables illustrate further the benefits of investing money in an IRA.

Example #1

Example #1 shows a total contribution of \$2,000 being invested —assuming an annual interest rate of 12% for various periods of time. As shown, a 25-year-old depositing into an IRA for 40 years could accumulate \$1,718,285.

Example #1	
IRA Investment¹⁴	
Deposit = \$2,000/year	
Interest Rate = 12% (annual)	
Values/end of year	
10 = \$	39,309
20 =	161,397
30 =	540,585
40 =	1,718,285

Deposits are made at the beginning of each year; and, ending values may be subject to applicable taxes upon distribution.

Examples #2 & #3

Examples #2 and #3 illustrate the adverse effects on money accumulation in a non-QP investment. Because the person in example #2 is in the 15% tax bracket, \$300 will already have been "deducted" for taxes — leaving only \$1,700 to be invested. Also, a 12% yield in the 15% tax bracket would be the after-tax rate of 10.2%. After 40 years the accumulation would be drastically reduced to \$875,544 — amazing!!!

Non-QP Investments (based on 12% annual rate)

	Example #2	Example #3
Personal Tax Bracket	15%	28%
After-tax Annual Deposit	\$1,700	\$1,440
After-tax Rate	10.2%	8.6%
Accrued Values		
End of: Year 10	\$ 30,145	\$ 23,364
Year 20	\$109,766	\$ 76,874
Year 30	\$320,071	\$199,429
Year 40	\$875,544	\$480,122

You can clearly see that the higher the tax bracket, the smaller the amount of money that works for you!

Let's see how the "Magic of Compound Interest" and the advantages of a Qualified Plan work in harmony together.

THE MAGIC OF COMPOUND INTEREST AND A QP

The "Time Value" of Money

Individual A

Opens a QP @ 12% — Invests \$2,000/year for six years, then stops.

Individual B

Spends \$2,000/year on himself for six years, then opens a QP @ 12%. Then, he invests \$2,000/year for the next 37 years.

Look at age 65 — Individual A, who only deposited \$12,000 has accumulated nearly as much money as Individual B, who deposited \$74,000!

Start early — let time work for you!

Can you believe it?

Employee Benefit Research Institute estimates that as many as 75% of the people who had an IRA before Tax Reform Act 1986 will find they still are eligible for a full deduction and that as many as 85% of previous IRA holders can get a partial deduction.¹⁵

Don't be one of those who misses out on the IRA tax advantage this year.

Individual A			Individual B	
Age	Payment	Accumulation End of Year	Payment	Accumulation End of Year
22	\$2,000	\$2,240	0	0
23	2,000	4,749	0	0
24	2,000	7,559	0	0
25	2,000	10,706	0	0
26	2,000	14,230	0	0
27	2,000	18,178	0	0
28	0	20,359	\$2,000	\$2,240
29	0	22,803	2,000	4,749
30	0	25,539	2,000	7,559
31	0	28,603	2,000	10,706
32	0	32,036	2,000	14,230
33	0	35,880	2,000	18,178
34	0	40,186	2,000	22,599
35	0	45,008	2,000	27,551
36	0	50,409	2,000	33,097
37	0	56,458	2,000	39,309
38	0	63,233	2,000	46,266
39	0	70,821	2,000	54,058
40	0	79,320	2,000	62,785
41	0	88,838	2,000	72,559
42	0	99,499	2,000	83,507
43	0	111,438	2,000	95,767
44	0	124,811	2,000	109,499
45	0	139,788	2,000	124,879
46	0	156,563	2,000	142,105
47	0	175,351	2,000	161,397
48	0	196,393	2,000	183,005
49	0	219,960	2,000	207,206
50	0	246,355	2,000	234,310
51	0	275,917	2,000	264,668
52	0	309,028	2,000	298,668
53	0	346,111	2,000	336,748
54	0	387,644	2,000	379,398
55	0	434,161	2,000	427,166
56	0	486,261	2,000	480,665
57	0	544,612	2,000	540,585
58	0	609,966	2,000	607,695
59	0	683,162	2,000	682,859
60	0	765,141	2,000	767,042
61	0	856,958	2,000	861,327
62	0	959,793	2,000	966,926
63	0	1,074,968	2,000	1,085,197
64	0	1,203,964	2,000	1,217,661
65	0	1,348,440	0	1,363,780

Now let's take a brief look at five of the various QP's available to Middle America: the IRA, SEP-IRA, Keogh, 403(b)(7), and the 401(k).

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

Everyone below age 70½ with earned income should consider having an IRA, even if they have another qualified plan.

Advantages

- Simple to establish
- Easy to administer
- Can contribute up to \$2,000 of earned income
- Most people will have current year deductibility

Disadvantages

- Maximum contribution — \$2,000
- Some people will lose current year deductibility
- Penalty for early withdrawal

Simplified Employee Pension — SEP With Optional Salary Reduction (SARSEP) Provisions

A SEP-IRA plan combines the best features of a qualified Retirement Plan with the simplicity of an Individual Retirement Account. SEP-IRA Plans give employers an easy way to help themselves and their employees save for retirement by making contributions directly into IRA accounts set up for each participant.

Advantages

- Can contribute up to 15% or \$30,000, whichever is less (SEP)
- Less complicated paperwork than for Keogh
- Contributions are deductible for the employer
- Contributory IRA also is permitted (may or may not be deductible)
- Can contribute up to 15% or \$7,000, whichever is less (SARSEP)

Disadvantages

- Lower percentage limit than allowed for Keogh
- Must contribute equal % to all employees
- Employer cannot match employee's elective deferrals
- Not more than 25 employees for SARSEP
- 50% or more of the eligible employees must participate (SARSEP)

The KEOGH

The Keogh Plan allows the self-employed individual to defer taxation on 25% of his earnings (or \$30,000 whichever is less) if he contributes an equal percentage of each employee's compensation to the plan as well.

Advantages

- Can shelter more than an IRA
- Contributions are tax-deductible to the employer
- Contributory IRA also is permitted

Disadvantages

- Must contribute equal % to all employees
- Administration is complicated
- Can be expensive to establish and maintain

If an individual doesn't have any other employees, then a Keogh may be desirable. For most people, however, the SEP-IRA will be a better way to go.

... or perhaps you may be eligible for a

403(b)(7) TSA

A 403(b)(7) TSA lets eligible employees arrange to have their employer withhold a portion of their salary to be invested in mutual funds held in a custodial account.

Advantages

- Can contribute up to 20% of income, some cases — more
- Contributions are made before taxes are calculated
- Contributory IRA also is permitted

Disadvantages

- Only available to schools and non-profit organizations
- Employer can restrict investment options
- Cannot make additional voluntary contributions

Eligible 403(b)(7) employees work for the following non-profit organizations: **public schools, hospitals, research foundations, churches, symphony orchestras, museums, zoos, etc.**

The 401 (k)

Another bonanza for Middle America employees is a relatively new Plan called a 401(k).

Advantages

- Employers may contribute 15% of compensation
- Employees may make \$7,313 salary reduction contributions
- Employer gets a deduction for total contribution
- Contributory IRA also is permitted

Disadvantages

- Employer decides how to fund
- Administration is costly
- Employer contributions may not vest immediately

401(k) Example

Let's say you are 21 years old and earn \$12,000. You elect to defer 2% (\$240) of your annual compensation @ 10% with a 50% employer matching contribution. If you are paid weekly, you will take home approximately \$3.70 less each week. What will that \$3.70 do for you?

From Age 21 To Age	Total Employee Contribution	Matching Employer Contribution	Total Contribution	Accumulated Value
30	\$2,160	\$1,080	\$3,240	\$5,737
40	4,560	2,280	6,840	20,619
50	6,960	3,480	10,440	59,217
60	9,360	4,680	14,040	159,233
65	10,560	5,280	15,840	258,805

As you can see, taking home \$3.70 less a week now, could mean a quarter of a million dollars later.

But, you know the question most people have is, "Am I eligible for a qualified plan?"

Each person should consult with his employer, accountant, tax preparer, or someone familiar with qualified plans to determine his eligibility. Everybody's situation is different. But there is one absolute that I do believe exists here:



Don't even consider investing in any after-tax program until you have first established an emergency fund and maximized before-tax contributions into all available qualified plans — particularly an IRA!

Before we get off the subject of qualified plans, I just want to make one point about the effects of the new tax law on one qualified plan — the IRA.

1986 tax legislation modified the **deductibility** aspect of having an Individual Retirement Account (see chart below).

IRA DEDUCTION PHASEOUT

(For participants in employer-sponsored plan)

Joint Returns

Adjusted Gross Income	IRA Deduction One Spouse Has IRA	IRA Deduction Both Spouses Have IRAs	Spousal IRA Deduction
\$40,000 and under	\$2,000	\$4,000	\$2,250
41,000	1,800	3,600	2,025
42,000	1,600	3,200	1,800
43,000	1,400	2,800	1,575
44,000	1,200	2,400	1,350
45,000	1,000	2,000	1,125
46,000	800	1,600	900
47,000	600	1,200	675
48,000	400	800	450
49,000	200	400	225
50,000 and over	-0-	-0-	-0-

Married Example

A married couple with adjusted gross income of \$44,000 would be allowed to deduct up to \$1,350 if one spouse doesn't work, and, \$2,400 if both spouses work.

Single Taxpayer Returns

Single Example

A single individual with adjusted gross income of \$32,000 would be allowed to deduct up to \$600.

Adjusted Gross Income	IRA Deduction
\$25,000 and under	\$2,000
26,000	1,800
27,000	1,600
28,000	1,400
29,000	1,200
30,000	1,000
31,000	800
32,000	600
33,000	400
34,000	200
35,000 and over	-0-

NOTE: Participants who fall within the phase-out charts are allowed a minimum \$200 deduction; \$225 with a spousal contribution.


But the new law did nothing to the more important aspect of **deferrability**, the advantage of growth on earnings without current taxation. Most people won't be affected by the 1986 tax changes at all. But let's say you lose your deductibility. All you have to do is look at a simple compound interest table to understand deferrability is far more valuable, and **no one loses this benefit**.

EXAMPLE OF DEFERRABILITY

Looking at the column showing a 15% return, the growth from year 1 to year 2 is barely more than the \$1,000 investment — agreeably not very significant. However, if we drop down to the difference between year 34 and year 35, the difference becomes very significant. The \$1,000 in current additions is overshadowed by the \$132,176 in total growth. This example demonstrates the primary advantage of an IRA: the tax deferrability on the earnings in the account over the long term. Another way of looking at the same concept: \$35,000 in total contributions at \$1,000/year amounts to \$1,013,346 @ 15% after 35 years. Even if you didn't get the **deduction** for the \$1,000 each year, you **deferred** taxation on the other \$978,346 in earnings on your contributions!

COMPOUNDED INTEREST TABLES

Accumulation of \$1,000 per year deposited at the beginning of the year.

Year No.	12.5%	13.0%	13.5%	14.0%	14.5%	15.0%
1	1,125	1,130	1,135	1,140	1,145	1,150
2	2,391	2,407	2,423	2,440	2,456	2,473
3	3,814	3,850	3,885	3,921	3,957	3,993
4	5,416	5,480	5,545	5,610	5,676	5,742
5	7,218	7,323	7,428	7,536	7,644	7,754
						
31	337,713	375,516	417,714	464,820	517,404	576,100
32	381,053	425,463	475,241	531,035	593,572	663,666
33	429,809	481,903	540,533	606,520	680,785	764,365
34	484,660	545,681	614,640	692,573	780,644	880,170
35	546,368	617,749	698,752	790,673	894,982	1,013,346
36	615,789	699,187	794,218	902,507	1,025,900	1,166,498
37	693,888	791,211	902,573	1,029,998	1,175,800	1,342,622
38	771,748	895,198	1,025,555	1,175,338	1,347,436	1,545,165
39	880,592	1,012,704	1,165,140	1,341,025	1,543,960	1,778,090
40	991,791	1,145,486	1,323,569	1,529,909	1,768,979	2,045,954

You see now why I strongly recommend the use of qualified retirement plans. And while there are various places for investing under those plans, such as banks, savings & loans, credit unions, etc.; in the next two Principles — **Bypass The Middle Man** and **Invest With Professional Money Management** — you'll begin to understand how the game plan should be structured.

PRINCIPLE #7

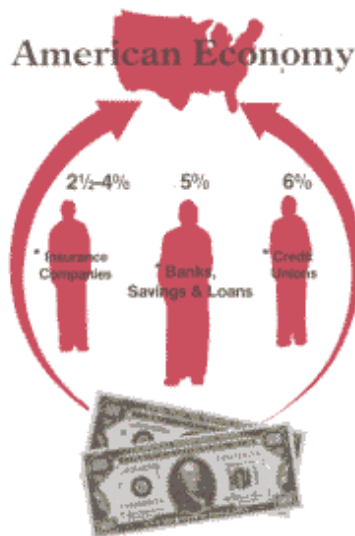
BYPASS THE MIDDLEMAN

Problem: *Most people loan their money to a middleman who invests the money and takes much of the profit.*

Solution: *Eliminate the middleman and invest your money the same as the middleman does, but gain the profit for yourself.*

Many people have failed financially because they didn't understand the basic concept of "avoiding the middleman." Here's how it works. Suppose you invest money at your local bank in the form of a savings account. You deposit the money in the bank, and, in return, receive 5½ - 6% interest.

Most people believe that this is a very "safe" investment. But here's what happens. After you invest your money in the bank, the bank in turn loans that money out or invests it directly into the American economy. The bank receives high rates of interest on its investment and is happy to pay you a low 5½% for the use of your money.



Your Investment Dollars

*The middlemen average 12 to 17% profit after paying interest.

Are you earning a guaranteed loss?

BECOME AN OWNER, NOT A LOANER

As a general rule — stay clear of banks, savings and loans, credit unions and insurance companies when saving money is concerned.

You see, what you really have is a "loaning" account, rather than a savings account. You are lending money to the bank and they are making a hefty profit off your money.

You have no choice but to reverse the situation, if you want to make your money work for **you**. You must become an "owner," not a "loaner." You must learn to "Bypass the Middleman."

Guaranteed Loss?

Even though you may feel comfortable with the fact that investments in banks and savings and loans are "guaranteed" against loss by the FDIC, what you are purchasing with that kind of "guarantee" is something you hadn't counted on — **at no extra cost — A GUARANTEED LOSS!**

Think about it:

You invest \$10,000 at 6% in your local savings and loan.

You earn interest for the year \$600

But, you pay taxes on that interest (30%) - 180

So, your net earnings are - \$420

But, say inflation is 5% - 500

LOOK AGAIN . . . You have "earned a loss" in
purchasing power of \$80! - \$ 80

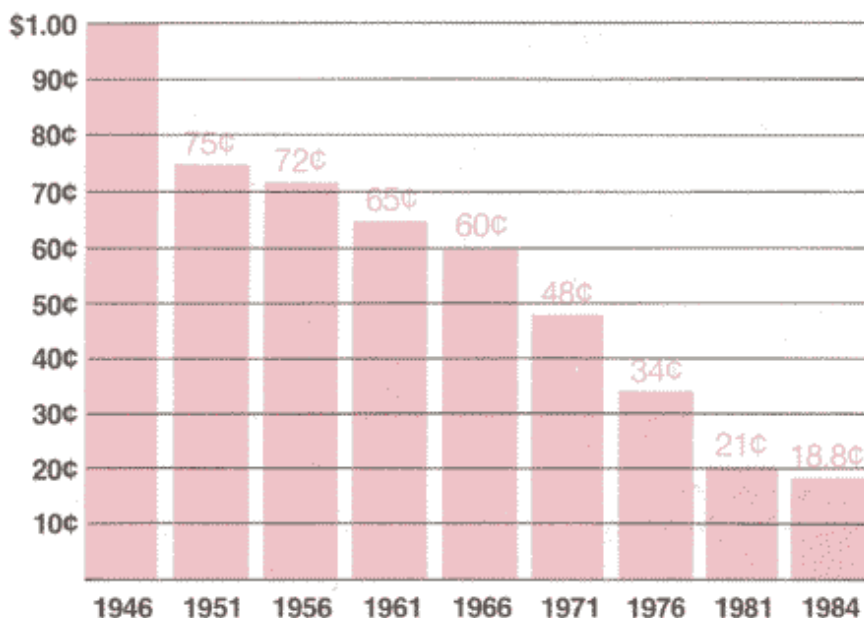
What you have been guaranteed by the lending institution is a loss of purchasing power, because the interest rate you are receiving can't keep up with taxes and inflation.

The "Bite" of Inflation

We all feel the bite of inflation. It's another way that we lose the purchasing power of our dollars. Sometimes it seems that the more you earn each year, the less you actually get to keep after inflation has taken its toll.

The charts below show the steady decline in the value of your dollar in the last decade.

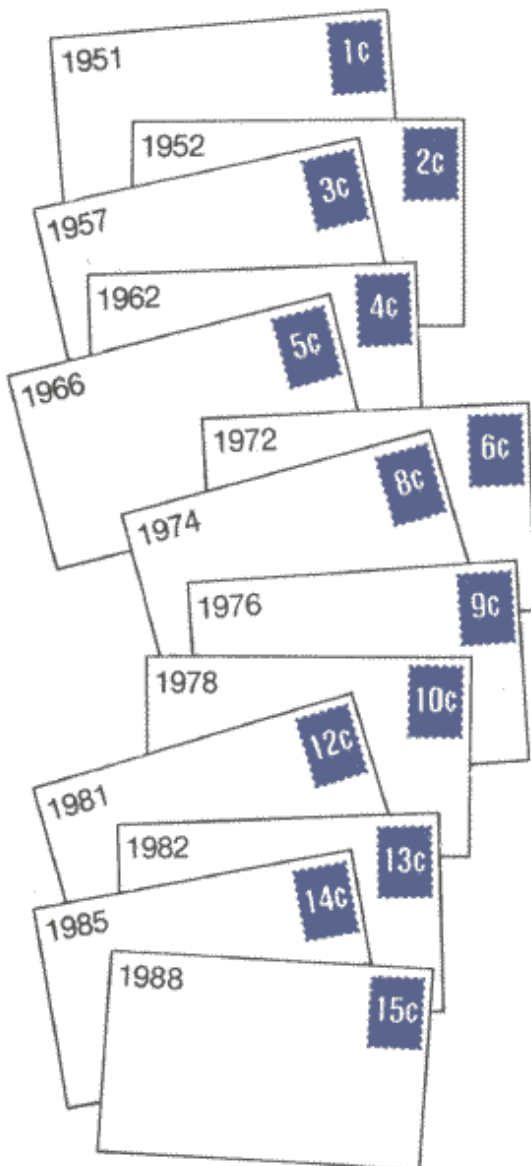
The Decline of the Dollar*



*Source: U.S. Department of Labor

The declining power of the dollar means you pay more.

Look at the rise of the penny postcard since 1951.



What does the declining power of the dollar mean to you? It means you pay **MORE** for items your family needs. Look at the increase in some of these common expenses in the last few years.¹⁶

		Today	% Increase
Automobiles	\$2,210 (1950)	\$ 9,663	337%
College education (per year)	\$ 845 (1960)	\$ 3,156	273%
New house	\$9,219 (1950)	\$86,600	839%

As you can clearly see, you can't ignore the effects of inflation in your financial planning. That's all the more reason that you must get every bit of return on your money that you possibly can. All the more reason to "bypass the middleman" whenever possible.

Home Mortgages

Owning a home is a major investment — I think it's one of the greatest investments you can make. When buying a home, you must use the services of a middleman, but there are ways that you can minimize the cost of being a "loaner" in this situation.

For example, have you ever really analyzed how the "financing" works? I recently looked at an individual case where a couple had purchased a home in June 1980 for \$75,000 at 11% for 30 years. Their payments are \$714.25 per month for principal and interest. Over the life of the loan, the "owners" will pay back \$257,130. How can this be? Because most of each payment in the early years goes for interest, **not** principal. In fact, after five years of payments the principal will be reduced by only \$2,126!!! Can the bank do that? **They sure can.** Can you beat it? **Yes**, by using a concept called **MORTGAGE ACCELERATION**. You simply pay the loan off early by making additional principal payments each month or lump sums of cash at various times.

We were able to show the couple above that their loan could be "pre-paid" in 22 years and 6 months if they pay a \$600 lump sum in June 1983 and make an additional principal payment of \$50 each month. The \$600 down would eliminate "14" payments — in other words, by shifting some money around we were able to save \$9,437 immediately; over the life of the loan, \$52,267.50 would be saved in interest!† It's a concept you should look into. You will like it — the banks will not!!!

You know the ravages of taxes and inflation in all areas of life. We all experience it. But it doesn't really hit you until you see it in black and white. You see, unless you become an owner — you lose! And in today's tough economic times — **you can't afford a loss!**

†In showing these savings no provisions have been made for possible income tax deductions or interest.

PRINCIPLE #8

INVEST WITH PROFESSIONAL MANAGEMENT

Problem: *Most people need some help with their "big" investment decisions. They simply don't have the time or investment expertise to go it alone in this area.*

Solution: *Utilize a concept of investment that provides professional money management for average Americans.*

I'm sure you see now why I preach "ownership vs. loanership" and why I say that in order to stay ahead you must invest directly into the American economy. Oh, there are many ways to invest: stocks, bonds, annuities, CDs (certificates of deposit), real estate. You name it, and someone will try to sell it to you. Be careful. When you get into the area of more "sophisticated" investments, you may need some advice and direction in order to make good investment choices. Also, there are some basic rules you must consider.

You can earn more if you own.

Rule No. 1

If your investment goes into "loanership" investments (cash values, bank savings accounts, etc.), your return will probably be within a range of 4-10%.

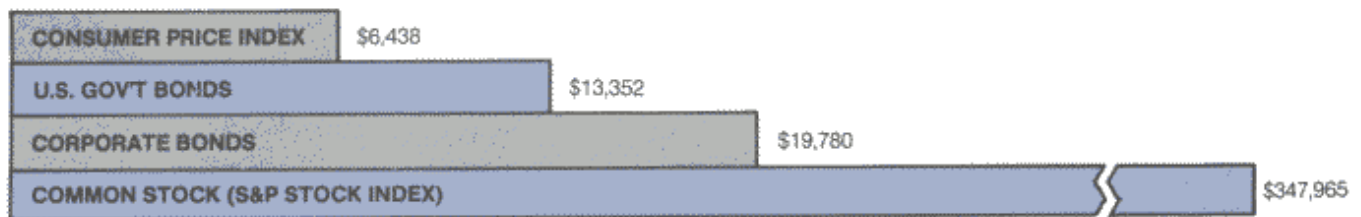
Rule No. 2

If your investment dollars go into "ownership" investments (stocks, real estate), your return may be as high as 12% or possibly even more. There are no guarantees. The element of risk is always present in any investment which holds the possibility for higher gains. You could earn no income, or even lose a part of your principal. But many "ownership" vehicles in the marketplace have extremely good records of return on investment. Of course they did not lose money if they had a good return. If you want to maximize your return on investment, you have to accept some risk. If you want to accumulate money, be an owner — not a loaner!

Maximize your return.

The chart below shows that common stocks in the Standard & Poor's 500 Composite Index have performed better than the "loanership" investments shown during the period from 1926 through 1986.

INVESTMENT RESULTS 62 Years (1926-1987) \$1,000 Invested Annual Compounding



Results from investments of \$1,000 for 62 years during the period 1926-1987, compound annual returns, with all income reinvested. Source: Ibbotson Associates, "Stocks, Bonds, Bills, and Inflation 1988 Yearbook," Chicago, IL, updated to 1987. U.S. Government Bonds shown are long-term bonds. Corporate Bonds are from backdated Salomon Brothers Index.

TEST YOUR INVESTMENT IQ

Unless you have extensive knowledge in the stock market, know how to analyze which stocks are "good" and which are "bad," have the time to spend on the phone with your broker and the temperament to allow you to comfortably sit tight if the stock market took a down turn, you probably need professional investment management.

Perhaps you are one of the few Americans who was born with the ability to make wise investment choices. Let's take just a few minutes and "Test Your Investment IQ." Suppose you inherited \$30,000 back on January 1, 1978 and were given the following instructions as to how your investment must be made:

Rules of the game.

1. You must carefully select "good" stocks — ones that you feel will do well in the future.
2. Don't put all your eggs in one basket. (Isn't that what Dad used to say?) Pick at least three stocks.
3. You must agree to keep your selected stocks at least 10 years.

WHICH THREE STOCKS WOULD YOU SELECT?

Put \$10,000 in each of the three stocks you choose. Then, see your results . . .

<input type="checkbox"/> Allied Signal	\$10,000	<input type="checkbox"/> International Paper	\$10,000
<input type="checkbox"/> ALCOA	10,000	<input type="checkbox"/> McDonald's Corp.	10,000
<input type="checkbox"/> American Express	10,000	<input type="checkbox"/> Merck & Company	10,000
<input type="checkbox"/> American Telephone & Telegraph	10,000	<input type="checkbox"/> Minnesota Mining & Manufacturing	10,000
<input type="checkbox"/> Bethlehem Steel	10,000	<input type="checkbox"/> Navistar International Corp.	10,000
<input type="checkbox"/> Boeing Company	10,000	<input type="checkbox"/> Phillip Morris	10,000
<input type="checkbox"/> Chevron	10,000	<input type="checkbox"/> Primerica Corp.	10,000
<input type="checkbox"/> Coca-Cola Company	10,000	<input type="checkbox"/> Proctor & Gamble	10,000
<input type="checkbox"/> Du Pont	10,000	<input type="checkbox"/> Sears, Roebuck	10,000
<input type="checkbox"/> Eastman Kodak	10,000	<input type="checkbox"/> Texaco	10,000
<input type="checkbox"/> Exxon	10,000	<input type="checkbox"/> Union Carbide	10,000
<input type="checkbox"/> Firestone	10,000	<input type="checkbox"/> USX Corp.	10,000
<input type="checkbox"/> General Electric	10,000	<input type="checkbox"/> United Technologies	10,000
<input type="checkbox"/> General Motors	10,000	<input type="checkbox"/> Westinghouse	10,000
<input type="checkbox"/> Goodyear Tire & Rubber	10,000	<input type="checkbox"/> Woolworth	10,000
<input type="checkbox"/> IBM	10,000		

HOW WELL DID YOU DO?

From the list on the following page, you can see just how well your three selections did in the 10-year period. Were your choices among the top performers?

INITIAL \$10,000 INVESTMENT JANUARY 1, 1978

The 30 Dow Jones Industrial Stocks	Value of Investment Dec. 31, 1987		The 30 Dow Jones Industrial Stocks	Value of Investment Dec. 31, 1987	
Merck & Company	\$57,117	+471.2%	ALCOA	\$20,056	+100.6
Philip Morris	55,187	451.9	Proctor & Gamble	19,882	98.8
Westinghouse Electric	54,912	449.1	International Paper	19,310	93.1
Boeing Company	44,418	344.2	United Technologies	18,882	88.8
McDonald's Corp.	43,265	332.3	American Telephone & Telegraph*	18,626	86.3
Woolworth	36,547	265.5	IBM	16,891	68.9
General Electric	35,385	253.9	Union Carbide	15,911	59.1
Goodyear Tire & Rubber	34,783	247.8	Texaco	13,423	34.2
Exxon	31,692	216.9	Primerica	12,448	24.5
Coca Cola Company	30,704	207.0	Sears, Roebuck	11,964	19.6
Minnesota Mining & Manufacturing	26,546	165.5	General Motors	9,761	-2.4
American Express	25,502	155.0	Allied Signal	9,596	-4.0
DuPont	21,773	117.7	USX Corp	9,444	-5.6
Eastman Kodak	21,567	115.7	Bethlehem Steel	7,929	-20.7
Chevron	20,383	103.8	Navistar International Corp	1,405	-86.0

*Including 7 Regionals

(No transaction costs have been deducted, and no adjustment has been made to the figures for dividends paid during the investment period.)

If you picked the top three, you'd have \$167,216! Even after "Black Monday," the results are awesome! But... if you picked the bottom three, you'd have \$18,778.

\$30,000 Invested

Top 3	Bottom 3
\$167,216	\$18,778

I'll bet you were just as surprised as I was when I took this little quiz many years ago. To date, I have found very few people who could pick one out of the top three stocks let alone all three!!!

Picking the top stocks would have provided quite a tidy sum — \$167,216. On the other hand, look what your \$30,000 investment would have "grown" to if you selected the bottom three performers — \$18,778.

For these reasons, I recommend for "Middle America" an investment concept called MUTUAL FUNDS. I recommend mutual funds because they provide the following.

1. Professional Management

A mutual fund is a company which invests the money of its shareholders. Shareholders who choose to place their investment dollars in a "pool" with thousands of other shareholders are able to take advantage of professional management. The investment management fee you pay when you first invest is a small price for the security of having qualified professionals make the investment decisions.

2. Diversification

Because thousands of shareholders are "pooling" their money in a given mutual fund, the fund can easily diversify its investments among the securities of many companies. By owning many different securities, the mutual fund can reduce the impact of one poor selection.

3. Minimum Investment

You can get into many mutual funds for as little as \$25. Otherwise, the majority of funds have minimums that range somewhere between \$250 and \$1,000.

4. Ease of Investment

Most mutual funds will permit you to purchase through a lump sum investment, periodic preauthorized check, military allotment, group purchase or automatic salary deduction.

5. Variety of Objectives

The investment that's right for you depends on your attitudes and objectives. Some people want income now. Others, who want income later, choose growth-oriented investments. Others choose to accept greater risks in hope of maximizing their return. When considering a mutual fund, always read the prospectus thoroughly to make sure you understand all the details of the fund's philosophy and operations.

6. Marketability

Your investment in a mutual fund is readily marketable. The fund is required to buy back your shares at any time at the then-current net asset value, and to put your check for the current value of your shares in the mail within seven calendar days of your request. The amount received may be more or less than your original investment.

If you owned shares of stock in several companies, you would have to decide which stock to sell when you needed cash.

However, when you redeem only a part of your holding in a mutual fund, at retirement, for example, you may reduce the number of shares you own, but still retain an interest in the fund's entire portfolio.

7. Systematic Income

When you get ready to retire and you want to draw on your mutual fund, a "withdrawal plan" permits you to receive a systematic income check from the fund.

8. Exchange Privilege

Most families of funds offer an exchange privilege whereby you can control your investment whenever you wish by exchanging shares of one fund for shares of another within the same family, usually for a nominal fee. For instance, as you get closer to retirement, you can exchange shares of a growth fund for shares of a fund that will generate income to you in the form of monthly, quarterly or annual checks. Exchanging mutual fund shares normally creates a taxable event, but not if the mutual fund is an IRA.

9. Investment of Fixed Sums in Full and Fractional Shares

Normally, you could not buy fractions of a share in a corporation's stock. However, with a mutual fund you can purchase full and fractional shares.

10. Performance Results

These are readily available every day in newspapers.

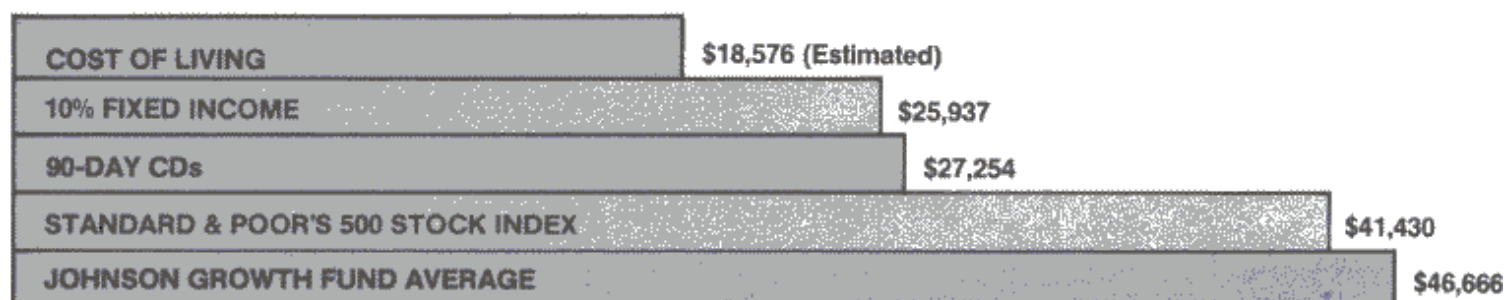
Before going further, let's take a look at what the average "growth" mutual fund could have done for you during the period from 1/1/78 — 12/31/87. A "growth fund" is a mutual fund whose primary investment objective is long-term growth of capital. It invests principally in common stocks with growth potential. Again, let me emphasize that the results are what happened in the past, and there is no guarantee of what will happen in the future.

Many times when I discuss mutual funds people ask, "How do they compare to other investments?" The following chart graphically illustrates the difference:

For example — In order to keep pace with inflation over the period covered, your \$10,000 investment would have had to become \$18,576. As you can see, the Johnson Growth Fund Average far out performs inflation, CD's and 10% fixed returns. Even the Standard & Poor's 500 Stock Index was no match for the Growth Fund Average. Once again, a picture is worth a thousand words.

**Compare your investment:
\$10,000 lump sum invested
for a 10-year period.**

COMPARE A MUTUAL FUND



Jan. 1, 1978 - Dec. 31, 1987 period.

The chart illustrates the performance of The Johnson Growth Average during the stated period and may not be considered for future results. Figures include dividends and capital gains reinvested in additional shares and assumes an eight and one-half percent sales charge on the amount invested. No adjustments have been made for any income taxes payable. You should also know that this 10-year period (1978-1987) was a period of fluctuating, but generally rising, common stock prices and includes the market break of October, 1987. The Standard & Poor's 500 Stock Index is the popular unmanaged stock market index. The 10% fixed income account assumes interest compounded quarterly, 90-day CDs refer to 90-day certificates of deposit which are issued by banks and savings & loan associations. These certificates offer a guaranteed return and principal is insured by a government agency, but they require a substantial penalty for early withdrawal.

Professional management can make a difference.

To see how a mutual fund would have worked for you, ask a Registered Securities Representative to prepare for you a Hypothetical Illustration of an Accumulation Plan and if you wish, a Systematic Withdrawal Plan. This service should be provided free upon request.

Finally, mutual funds in general have done quite well over the last decade. According to the "Johnson's Charts Growth Fund" average, the average long term growth mutual fund appreciated 366% for the 10-year period ending December 1987.¹⁷ This is not to say that mutual funds will do as well in the future — remember there are no guarantees. Suffice it to say — I'm glad I had a portion of my investment dollars in mutual funds during that period.

**The small investor's
best choice.**

Although mutual fund sales in 1987 (190 billion) did not match the previous year record volume, mutual funds are still a popular choice of investors. According to the Investment Company Institute in Washington, D.C., more than 25 million Americans now own mutual funds.¹⁸ The continued growth in the mutual fund industry brings its total assets to over \$769.9 billion. As recently as the beginning of the decade, mutual fund assets were only \$95 billion.

Even after "Black Monday" industry experts are still touting mutual funds. Investment advisor Curt Brouwer said in the February 1988 issue of *Money Magazine*: "Despite recent turbulence, mutual funds remain the least expensive way for most people to invest . . . you don't switch to a horse drawn buggy because you had trouble with your car. Mutual Funds are still the best bet for the small investor."¹⁹

But remember — a mutual fund is a long term investment. Don't start one and then stop when something else "looks good" or a minor emergency comes up. That's the reason for an emergency fund.

**Isn't it time you considered
mutual funds?**

If you are like most folks . . .

- You've always wanted to invest, but were afraid of the stock market
- You've always heard that only the wealthy could invest in the American economy
- You've always been told that it takes lots of money to make money
- You've felt that only the wealthy could afford professional money managers

. . . Isn't it time you use "common sense" to prepare for your financial future?

A mutual fund — the most perfect investment vehicle for Middle America!

PRINCIPLE #9**START A
FAMILY TRADITION**

Problem: *If you don't start now, you may never reach financial independence.*

Solution: *Begin today to apply the fundamentals, teach them to your family, and start a tradition that you can pass on for generations to come.*

If you want to build financial freedom, it's essential that you begin your plan as soon as possible. The principles we've talked about so far will put you on the right track. The sooner you begin to apply them, the sooner you can begin to build a lasting TRADITION of financial independence that can continue for generations.

Begin a Generation-to-Generation Investment

To me, the idea of building a "GENERATION-TO-GENERATION INVESTMENT" is one of the most exciting financial planning concepts.

Let me give you an example:

Suppose you **start with nothing** - like I did. You begin by **saving \$100 a month**. At 12% in 20 years, you would have \$91,121. You could withdraw \$10,000 a year (\$5,000 every six months) to send your two children to college for 8 years (\$80,000) but your original **\$91,121** has actually grown slightly to **\$91,714** on a 12% return.

- A. $\$100 \text{ a month} \times 20 \text{ years} = \$91,121$
- B. Withdraw \$10,000 a year for 8 years for college expenses = \$80,000
- C. Meanwhile, your original \$91,121 minus withdrawals for college = \$91,714.
- D. If you continue to save \$100 each month for 30 years, the \$91,714 would grow to over \$3,000,000. Your children and their children continue saving \$100 each month (after estate tax considerations). Then your family, for generations, could use the investment that you started with just \$100 to educate children, retirement, emergencies, and so forth, and continue to pass it on to the next generation.

Hopefully, you would be able to put away more than \$100 a month, but you get the idea.

You can see how buying now and saving consistently can accumulate funds that prepare you for retirement, relieve you and your children of the worry of major expenses, like a college education, and still provide a CORNERSTONE upon which your children can continue to build.

I believe that one of the greatest things you can do for your children is to teach them the principles of financial planning. The best part of starting your financial plan early is the opportunity you'll have to pass on a TRADITION of good financial planning. You can do this effectively by keeping a few simple guidelines in mind:

Be a good example.

1. BE AN EXAMPLE OF GOOD FINANCIAL PLANNING.

What you say and do in your life is what your children will learn. Talk openly about financial matters. You'll be amazed how repetition of simple adages like "If you make 50¢, save a quarter," can make a lasting impression over the years.

Share financial goals with the whole family. As soon as children are old enough to understand, include them in discussions of your financial plans. This is particularly important when your children are in their teen years. You'll find it's much easier when you have to say "no" if your children understand the family's financial picture. A fringe benefit is the feeling of belonging and united effort that they'll get if they have some input into the family's plans.

Too often, the breadwinner handles all financial matters, and is the only person knowledgeable about the family's financial standing. Never be guilty of this. The family money is a concern of the **entire** family.

2. ENCOURAGE YOUR FAMILY TO SAVE.

Old habits die hard, and if you establish the savings habit when your children are young, chances are they'll carry it into their adult lives. Gifts of money from relatives and grandparents are an excellent way to begin your children's savings program. As they get older, encouraging children to save money earned from part-time work like mowing lawns, or raking leaves is the perfect way to start a savings ethic.

Your attitude is all-important.

It's important to remember that your attitude is **all-important**. I believe that you can help develop a winning attitude in your children. If you constantly criticize and "tear down" their efforts, they'll become discouraged and frustrated. If you accent the importance of a good attitude, and respond to their efforts with encouragement and praise, your children's attitudes will be positive. Secondly, it's important to reinforce what you say with action. I used to employ a light-hearted form of "punishment" with my own kids. From the time they were little, whenever they said "I can't," I made them do three push-ups. While they were doing them, I reminded them that they could do anything they wanted — that **nothing** was impossible. Often, a little thing like this can go a long way in helping to build a positive attitude.

The same principle works in building financial attitudes. If you support and praise savings efforts, your children will take pride in it as well. If you talk openly, and with enthusiasm, about the growth of your savings accounts, the children will learn that saving money is a matter of pride and accomplishment.

A Note on Allowances: My wife and I have never believed in giving allowances to our children. We felt that the traditional allowance is given for "spending" and we wanted the children to learn how to save, not spend. We prefer to give money as the need arises, rather than designating a certain amount that they could spend. (This also allows you to supervise spending and help your children make wise decisions.)

3. INSTILL AN "EYE" FOR INVESTMENT. It may sound funny to talk about teaching investment to children, but it can be done in a basic way. Our son's first car was a 1958 Chevy that he bought, painted and fixed up. He drove it for two years, then sold it at a handsome profit. That experience taught him more about wise buying and investing time and effort to achieve a return than any economics lesson.

In our lives, we bought and sold four houses before buying our "dream house." Those actions, if the children are a part of them, help teach the principles of wise investment.

If you want to involve your family, but are starting out with nothing, don't worry. Just begin as soon as you can to build your generation-to-generation investment, and the principles of time and consistency will help.

These simple ideas have worked well with my children, and I hope you'll give them a try with yours. If you teach the principles of good financial planning, you can be secure in the knowledge that the **GENERATION-TO-GENERATION INVESTMENT** that you've begun will continue, and that future generations of your family will benefit from your efforts today.

Remember, all the knowledge in the world about what it takes to make money work for you doesn't mean anything unless you act. Start your program for financial independence today. Just a few dollars a month will serve as the foundation for the financial independence you want to achieve. You'll be glad you did, and so will your family — from **GENERATION-TO-GENERATION**.

Teach children to invest wisely.

PRINCIPLE #10**DEVELOP A
WINNING ATTITUDE**

Problem: *Most people have the attitude that things won't work out, that bad things will happen. You receive in the end what you expected during the journey.*

Solution: *Expect to succeed. Develop a positive, enthusiastic, happy, excited, confident attitude about life.*

Over the years, I've developed a few theories about what it takes to be a winner in life. In your financial planning efforts, and in all other areas of your life, your "will to win" will be an important factor. The things I've learned about winning have made a difference in my life, and I'm passing them on to you in the hope that they give you "food for thought" about your own attitudes.

**LIFE WILL GIVE YOU WHATEVER
YOU WILL ACCEPT.**

I believe that your life will turn out exactly as you allow it to. If you **accept** being average and ordinary, life will make you average and ordinary. If you **accept** living with financial hardships, life will give you hardships and heartaches. If you **accept** being poor, life will make you poor. If you **accept** being unhappy, life will deliver that, too.

It all depends on **your** attitude, **your** expectations. Basically, if you think you can or you think you can't, **you're right**.

**FOR THINGS TO IMPROVE
YOU MUST IMPROVE**

YOU MUST EXPECT TO SUCCEED. The kind of success you'll have throughout your life depends on your outlook. Before you can have any meaningful success, you must develop an attitude or **expectation of success**. Your expectations are more important than what anyone else thinks about you. Why? Because it's a fact of life that people live up to **their own** expectations of themselves.

Expect success.

Learn to see yourself as financially independent. Learn to see yourself as free, happy and successful. If you're convinced it will happen, believe me, it will happen.

Life will give you whatever you demand, sacrifice and work for. Most people are unwilling to put off until tomorrow things they can't really afford today. Most people are heavily in debt because their desires are stronger than their will to win.

Can you live with being average and ordinary? If not, you will be successful.

EXCUSES ARE THE EASY WAY OUT

Everyone has a convenient excuse not to act. *"I don't have any money."* *"I don't have time; I'll do it tomorrow."* *"People like me don't have a chance."* *"I can't change after all these years."*

Excuses don't count. Everyone has the ability to begin right now to "take control" of his life. Everyone can begin today to follow a plan that will lead to financial independence. You **can** do it!

YOU MUST DEVELOP A WINNING ATTITUDE IN ALL AREAS

I've found that there's one common denominator among successful people. They all possess "a winning attitude." They have the ability to stay motivated to achieve their goals, no matter what happens along the way. The greatest definition of A WINNER I've ever seen goes like this:

There's a "common denominator" to success.

Most people can stay motivated for two or three months. A few people can stay motivated for two or three years. But a **winner** will stay motivated **for as long as it takes to win.**

One thing that really helped me start winning financially was a fantastic book — *Think and Grow Rich*, written by Napoleon Hill.²⁰ Hill spent his adult life studying successful people, searching for that single characteristic that made all of them successful. Hill came up with a formula, a plan all these great men used to become financially independent. After reading *Think and Grow Rich*, I began to practice this formula. It worked for me and it will work for you, too.

Step #1 - **YOU MUST HAVE A SPECIFIC GOAL.** I was earning \$10,700 a year as Athletic Director and Head Football Coach. After days of thinking and worrying, I decided on my specific goal. I wanted an income of \$30,000 a year guaranteed for life.

Are you willing to pay the price?

Step #2 - **YOU MUST HAVE A SPECIFIC TIME TO ACHIEVE YOUR GOAL.** I was 28 years old and I decided I would work and sacrifice for 10 years to achieve my goal. I would be financially independent by AGE 38.

Step #3 - **YOU MUST WRITE IT DOWN.** Your goal must be **specific** and you must write it down as a commitment. (I cut out a piece of cardboard, wrote down my goal and placed it on my daily calendar.)

Step #4 - **YOU MUST DEVELOP A PLAN TO ACHIEVE YOUR GOAL.** I had saved \$40,000 in my 2½ years of working part-time. If I committed my \$40,000 for 10 years and could get 10% interest, my savings would be $\$40,000 \times 10\% \times 10 \text{ yrs.} = \$100,000$. (Actually, the \$40,000 would grow to more than \$100,000, but I wanted my plan to be easy to understand.)

I figured that if I accumulated \$300,000 cash, and received 10% interest, I could withdraw \$30,000 each year and never touch my principal. This \$30,000 could go on forever. But I needed \$300,000 and I had only figured out how to get \$100,000 by investing the \$40,000 I had saved.

I was still **\$200,000 short**. I figured that at 10% interest I would have to save \$1,000 a month for 10 years to get the additional \$200,000; $\$1,000/\text{mo}$ at 10% interest = \$200,000 plus. I now had my final plan. Invest my \$40,000 for 10 years and invest \$1,000 per month for 10 years. \$300,000 would equal \$30,000 a year for life.

Step #5 - **YOU MUST DECIDE WHAT KIND OF PRICE YOU ARE WILLING TO PAY.** Saving \$1,000 a month was tough for me, but I knew that if I wanted to be totally financially independent in 10 years, that was what it would take — **“There is no free lunch.”**

I decided my price would be to give up coaching to work full-time helping people to build financial security. That was a tough decision, but it was what I wanted to do, and it worked for me and my family.

Step #6 - **YOU MUST THINK ABOUT REACHING YOUR GOAL EVERY DAY.** There was not one day that I didn't think about how great it was going to be to be totally financially independent. Those dreams made me keep trying when I wanted to quit.

Follow Napoleon Hill's formula and give yourself an extra “edge.” You need to stay motivated to succeed, and following these guidelines will help you reach your goals.

BECOME A DREAMER AGAIN

If you don't feel you have a winning attitude, how can you develop one? If you want to be "A WINNER," you've got to become a "DREAMER" again. Most people in America have stopped dreaming. They grow up with everyone telling them how special they are. They are really "turned on" about life and about becoming somebody that they'll be proud of . . . then they are thrown out in the "big, bad world," and companies and people start taking advantage of them. These once enthusiastic people go into a shell. They begin to develop an attitude that **"life has passed me by — life has dealt me a bad hand!"**

To win in life, I believe you must become a dreamer again. **You must be excited, confident and turned on about life.**

I dreamed every day for years about how great it would feel to be financially independent. Those dreams kept me going when times were tough, but you know what I found out? Being financially independent was 100 TIMES GREATER than I dreamed it would be. No one can tell you how truly great it is being financially free unless he is there himself. I don't know anyone who has become financially independent who hasn't paid a big price, but who doesn't look back and say, "It was worth it. If I had known how GREAT it would be, I would have been willing to pay a price 10 times greater."

You can become what you dream about.

One of the things I love about the United States and the free enterprise system is that **you can become what you dream about.** You can change! You can make it better for you and your family if you want to badly enough!

I believe a winning attitude is everything. Developing a winning attitude may be the most important thing you accomplish in your lifetime, because if you have that quality, everything else you want can be accomplished.

A winning attitude is not for sale. You can't go to college and receive a degree in it. You aren't born with a winning attitude. It must be developed and earned through hard work. Remember, **you have a choice.** You can be happy or sad. You can be someone you are proud of or someone who's average and ordinary. You can be financially free or always worried about money.

Your attitude is "the difference." Victory will go to those fortunate few who possess and carry with them the spirit of a winner!

I hope, in some small way, I have helped you dream again. I also hope I have provided you with a plan and the necessary motivation to become totally financially independent.

GOOD LUCK!

Prepare for financial success **today.** Do it right — and do it **now.**