THE BANKER'S SECRET TO PERMANENT FAMILY WEALTH™

Live your life…
And build your wealth…
Using the SAME money

JOHN CUMMUTA

presented by PRIVATE FAMILY BANKING Finance Yourself

PERMANENT FAMILY WEALTH™

ABOUT THE AUTHOR:

John Cummuta is the author of numerous books and courses on personal finance. He has shared his bestselling *Transforming Debt into Wealth® system* with over 3 million people.

When asked why he wrote *The Banker's Secret to Permanent Family Wealth™*, he responded "I've committed my professional and personal life to helping people achieve some level of financial independence. However, over the past decade, I've watched that chance dwindle to practically zero for the average income earning household.

For years I looked for a safe, dependable place to invest my hard earned money and couldn't find anything that made me feel secure...much less something I would recommend to others. That is until I connected with *Private Family Banking™ Partners!* This book contains the exciting concepts I have learned and am now practicing myself."

ABOUT PRIVATE FAMILY BANKING™ PARTNERS:

Private Family Banking™ Partners help families realize the many benefits of permanent wealth like:

- Funding Retirement
- Paying for College
- Eliminating Debt
- Financing a Business
- Leaving an Inheritance
- Escaping Stock Market Volatility
- Protecting Wealth from Taxes and Judgments

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Using the SAME Money!"

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$14.99
ISBN 978-1-4675-7983-4
51499>
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www.PrivateFamilyBanking.com

Introduction – How You Gonna Get There?

Everybody wants to achieve "financial independence." We all want to enjoy financial security now, and then hit retirement age – whatever that means to us – with enough income to continue living a rewarding lifestyle until we get direct-deposited into a grave; but very few people are on a trajectory that will get them there. In fact, the vast majority of people are headed for a financial train wreck or at least a seriously diminished lifestyle in their "golden years."

Please stop your brain train for a moment and think about that. Have you ever defined your post-employment lifestyle with any specificity – like *when* you want it to begin, *where* you want to live, *what* you want an average day to include, *how much* monthly income it would require, and so on? Let's face it – **the answers to these questions determine where your financial choices and decisions are taking you**. If you haven't clearly defined these targets, your subconscious mind is left to assume them from the implied goals of your closest friends and family, cultural and family history models, and your own unspoken conclusions. Here's the critically important point about this: **your subconscious mind will work tirelessly to get you to the destination you give it…or the one you leave it to assume**.

Whatever that destination turns out to be, you will live in it for a long time. Statistics show the average person will live 2 decades or more past traditional retirement age. We *hope* these decades will be our most enjoyable, but we can be almost certain they'll be our least energetic and physically capable, so shouldn't we all be planning to be a bit easier on ourselves during those 20+ years? Wouldn't it be good if those decades were the least financially taxing years of our lives? Seems reasonable, yet most people live with a stunning disregard for planning for those decades. They consume their incomes during their peak earning years and then many of them give what little they've managed to save to their children to go to college, because they've been convinced they owe their kids a degree more than they owe themselves a reasonably secure post-employment life.

Most people don't give enough thought to how much it will cost to live comfortably when they no longer want to work full time, and to how they will produce that required income stream. They put their future financial requirements behind their current indulgences, their lifestyle competition with friends and family, and their kids' futures. My heart breaks to see so many good people living post-employment lives far below their working lives, and way below their hopes and dreams of decades earlier. How bad is it?

Since I don't know the specifics of your personal situation, I'll use national statistics to paint most people's reality. For objective data I'll turn to the Employee Benefit Research Institute's latest report on Individual Retirement Account Plans. The below figures show how much the average person has in savings by age grouping.

- < 35: $6,306
- 35 – 44: $22,460
- 45 – 54: $43,797
- 55 – 64: $69,127
- 65 – 75: $56,212
- 75+: (sample size insufficient)

OK, let's put these figures into perspective. Financial Planners will tell you that you should limit your withdrawals to about 4% of your nest egg each year in retirement. At a 4% withdrawal rate, your nest egg should last as long as you will. To find out how much you should have in retirement savings for this withdrawal rate, divide the amount of gross income you think you'll need each year in retirement by 0.04 and you'll have your target nest egg amount. For example, a $50,000 annual gross income would require a nest egg of $50,000/.04 or $1.25 million.

Look at the above savings by age groupings again. Do you see an average savings amount anywhere near $1.25 million?

But you'll be getting Social Security, right? OK, let's assume you'll collect the average Social Security income of $1,175 a month. That would add up to $14,100 a year, leaving $35,900 a year to be provided by your savings and investments. At a 4% withdrawal rate, your savings and investments would now have to total $897,500. Again, average Americans aren't saving anywhere near that much.

There's no hope!

Feeling a little behind the power curve in light of these figures? Understandable. Let's look at common options to save up your $897,500.

- **Investing.** OK, I'll need to assume an age here, so I'll go with the middle of the above age ranges. That would be about 55. I'll also assume you already have the average $69,127 in your savings account by that age. What will it take for you to grow that amount to $897,500 in a decade?

    - Let's be optimistic and say you could invest $1,000 a month for the next 10 years. You would need to find an investment that would return an average 27.805% each year to get you to the $897,500 you'll need by retirement.

    - Good luck finding that rate of return. According to research firm Dalbar, Inc. the average stock market investor gains just 3.83% annual ROI.

- **A business of your own.** An additional income stream can make a big difference to both your current and long-term financial pictures, but for right now – as a regular income earner – we're only talking about your ability to save and invest.
- **The lottery.** Since you have a statistically better chance of being struck by lightning than of winning the lottery, you may as well jump on every email chain letter that promises wealth if you forward it to your whole address book. I'd also eat a lot of Chinese food to up your chances of scoring a great fortune cookie promise.

Doesn't look like you can win, does it? Of course, you could do a "Kirk." If you're not a *Star Trek*® fan, I'll explain. James T. Kirk is the only Star Fleet Academy cadet to beat the Kobayashi Maru test. This is a test of how a starship commander would deal with a no-win situation, much like you may face in terms of building up anything like $897,500. So how did Kirk beat the test? He reprogrammed the training simulator so he could win. In his own words he, "Changed the conditions of the test."

Similarly, you can change many of the conditions of your life by the time you reach your post-employment years, so you won't need as much in savings and you won't be limited to the "4% withdrawal rule." **I'm going to show you how to have *more* money at your disposal…money that's growing tax-free and available to you tax-free.** However, to achieve this goal you'll have to really want it, because it's your level of desire that will determine your likelihood of success. The principles I'll show you work 100% of the time. Will you?

What's Your *Why*?

Your *why* is the answer to the question, "*Why* would I undertake the disciplines necessary to achieve this or any other financial game plan?" Up to now I've been talking about money and retirement, your money and your potential retirement. But your vision for your post-employment years is only one component of your *why*. Your *why* is your overarching, gut-level, emotional purpose for making and saving more money, both in the short and long term. So what are the factors that make up your *why*?

Is your *why* to buy your life back?

I have a friend who's a chiropractor. He invested 8 years training and $150,000 tuition to become one, and he's a good one. But after more than a decade in business he realized that his practice owned him, not the other way around. His *why* was to buy back his time. He didn't want to achieve financial independence just so he could ride around in a fancy car and live in a nice house. He was already doing that. He wanted to not have to be constantly thinking about or managing his practice.

Even though he had other chiropractors, along with the necessary support people working in his practice, they just *worked* there. He was the owner, so he had to worry about bringing in new patients, paying the $40,000 a month in overhead, and keeping up with the latest equipment and technologies. He was thinking about it all the time. He wanted a life beyond the business. That was his *why*.

What's yours?

I know single parents who desperately want to raise their own children instead of paying daycare workers to do it. That's their *why*. I know parents who would give anything to make it to all their child's little league games, or better yet coach the team. That's their *why*. I know many people who just want to stop worrying if this is the month one of the utilities gets shut off because they're always behind. That's their *why*.

What's yours?

Are you half way or better to retirement age with nowhere near half of what you'll need to retire? Are you hoping to be able to help a child or grandchild get a great education? Would a vacation home or just a better home make life a lot more enjoyable? Would it be deeply rewarding to be able to give people money instead of just well-wishes when they tell you their very real troubles? Would you like to give more at church or to important charities?

What is your *why*?

You need to find the answer inside you; probably deep inside if you want to connect with your complete *why*. Some things are obvious in the *why* department, but we're often living with ghosts of an underprivileged childhood, or with financial stresses on a relationship, or with other emotional markers that would be healed by achieving financial security. These are powerful *why* components and they're more useful if they're consciously accounted for.

In this book I'm going to show you how to satisfy your *why*. So let's get started.

Chapter 1 – This Is No Drill!

Here's what *Forbes* Magazine columnist Edward Siedle recently said in a *MoneyNews* article.

> "The United States is failing to prepare but is nonetheless set to witness the world's greatest retirement crisis. People are living longer, but there are growing indications that many can't afford to live comfortably in their golden years.
>
> "Findings from the Employee Benefit Research Institute (EBRI) reiterate the harsh reality reported in other surveys: Americans do not have enough money to retire. According to EBRI, more than half of U.S. households possess less than $25,000 in savings and investments when their homes and pensions are excluded from the picture. Many have no pension to consider in the first place, as the trend of extending these benefits is evaporating. And those that are so lucky to receive them better watch out. If an unexpected need for $2,000 arose in the next month, only half of U.S. households could find the money.
>
> "Whether you know it or not someone is busy trying to figure out how to screw you out of your pension,"
>
> Siedle considers 401(k)s, which were marketed as placing people's futures in their own hands, as a great experimental disaster. He was once employed as mutual fund legal counsel, and says the way retirement funds

were sold to working Americans is "almost laughable — if the results were not so tragic."

As we are already seeing, many older people have had to return to work because they either could not afford the costs of living or they need employer-subsidized healthcare. Others realize they need more money so they work longer, considering themselves to be postponing retirement. But many Americans have put ideas of retirement aside and plan to work as much as they can for as long as they can.

In the end, most people will end up in the same boat, according to Siedle, "with deteriorating health, a lack of employment opportunities and insufficient funds…too frail to work, too poor to retire."

Scary…and completely true

People who intended to stop working over the past decade, and those who hope to stop working in the future, face nearly impossible odds.

As I think back to when I started this journey, I'm stunned by the differences between then and now. It was so much simpler at the beginning of the 1990's. It's not anymore. In just the past decade and a half we've watched the stock market crash twice and the government spiral into indescribable debt. These two landscape changes impact you and me in two ways:

1. Almost all qualified plans – 401(k), 403(b), IRA, SIMPLE, Keogh, etc. – invest your contributions in the stock market. A

stock market, as I'll shortly show you, which cannot be depended on to grow your savings.

2. Taxes in qualified plans are *deferred* not eliminated. In other words, the government thinks of those deferred taxes as *their* money. When their overspending and over borrowing gets to critical mass, where do you think they'll look for the money to make up for their irresponsibility? Your retirement accounts, that's where.

This means that money you have in qualified retirement accounts is vulnerable to the heartless, undependable temperament of the stock market, and it's susceptible to the appetite of an out-of-control government. In fact, even money you have outside brokerage accounts could be in jeopardy.

The island nation of Cyprus is one of several EU countries experiencing severe national debt problems. Part of a plan to save the country's banking system from total collapse was to literally steal money from individual savings accounts. Cyprus government spokesman Christos Stylianides said: "We averted a disorderly bankruptcy which would have led to an exit of Cyprus from the Eurozone with unforeseeable consequences." Asked about the level of losses on uninsured depositors in Bank of Cyprus, he told state radio: **"The assessment is that it will be under or around 30 percent."**

Investment legend Jim Rogers, chairman of Rogers Holdings, asks the obvious question. "What more do you need to know? Please, you better hurry, you better run for the hills. I'm doing it anyway. I want to make sure that I don't get trapped. Think of all the poor souls that just thought they had a simple bank account. Now they find out that they are making a 'contribution' to the stability of Cyprus. The gall of these politicians."

Rogers' idea is that the risk of a confiscation of bank deposits now exists anyplace on the globe. In fact, it has been reported that one of the designers of the "legal" confiscation of money from private Cyprus bank accounts was the head of our own FDIC, the agency supposedly "guaranteeing" the contents of our bank accounts.

Does that scare you? It freaks me out. A national government stealing money from its citizen's savings accounts to make up for its own unbridled and irresponsible spending. When you get down to where the rubber meets the road, governments have just one place to get more money to feed their voracious appetites for spending, and that's from their citizens. It's only getting worse…especially in the United States.

So here we sit, between the stock and the hard place…between the markets and the government. The stock market, like Las Vegas, let's you win now and then to keep you in the game; but in the long run the house always wins. And whether you win or lose in the markets, whatever is left in your retirement account is fair game for the government. Does that make you feel insecure? It does me. It makes me insecure enough to write this book.

Run for the Exits

I know a lot about markets and how they work, and I'm getting out of stocks and bonds as fast as I can. **Stock markets can't be trusted with any money you can't afford to lose.** One of the smartest stock market professionals I know, a guy who was a big shot with a large national brokerage firm and who still has a stock trading advisory service, spends most of his time and energy building a network marketing downline. That's how unreliable the market is. Those who know the most about it don't keep their eggs in that basket.

The same actually goes for bond markets. Even though they have an aura of safety, nothing could be farther from the truth. While the interest (coupon) from a bond is generally guaranteed, the face value is not unless you personally hold it to maturity. If you own bonds through a mutual fund, when interest rates start going up you could lose your shorts, elastic band and all.

"Saving" and "Investing" used to mean different things. People *saved* up for retirement, and if they had some mad money left over, they'd do a little "speculating" in the markets. Stock market investing was largely a game for the rich; but in the 1970's the government blurred the distinction by creating qualified "retirement" accounts, like the 401(k). These accounts were almost exclusively vehicles for investing in the stock market, a game most working people had no experience in, but the accounts were promoted like retirement *savings* accounts so a lot of people bought in…and put their future in the hands of the gamblers of Wall Street.

I think of putting money into paper securities like laying it down on a Las Vegas felt tabletop. You should only use money you can let the spinning wheel or cards take away from you without damaging your life. Someone who started investing in the stock market in 1999 was **back to zero** a decade later. Those ten years produced two surges and two crashes that brought them right back to where they started. The market took their money. The mutual funds took their fees. The brokers took their fees. And the investor ended up with nothing. A lost decade!

But, as destructive and scary as the market and the government are, they're not the worst thing happening to the typical American's finances.

The biggest loss crippling most people's ability to achieve financial independence is the 34.5% of take-home income the average consumer spends on interest payments. **It amazes me when I see people crowing about improving their investment returns by 1% or 2%, while they're coughing up 30+% of their after-tax income to interest.** On their mortgage alone most people are paying an effective interest rate over 85%, because they're in the first decade of their latest mortgage!

The average American is being severely injured or even crushed by interest costs, investment markets, and the taxman. Are you? Even if things seem to be going relatively well for you and your investments at the moment, do you feel secure that the other shoe won't drop next week, next month, or next year? Are you, like many people with retirement funds in stocks, feeling queasier as the market goes higher? What would you do if the market decided to drop right before you plan to retire? Would you end up like those who experienced that in 2000 and 2008 – forced to continue working indefinitely?

I can't state this too strongly. If you don't have a dependable plan for your financial future, **you will likely endure decades of toil and stress**. It's not too late, but you must be willing to think differently. We've all been tricked into playing someone else's game with our retirement funds; a game where the house always wins.

In this book I propose to solve all three problems for you:

1. I'll show you a saving/investing system that will give you good, dependable growth that will **never go down**. You will **never** lose any of your retirement funds because the market decides to "correct."
2. This system will **protect your money from taxes**, judgments (in most states), and government avarice. Your money will grow tax-

free, you'll be able to use it tax-free, and the government can't take it to pay their overdue bills.

3. This system will allow you to **recapture the money** you're currently losing to interest…and all that interest will earn interest for you!

In fact, this amazing system can actually help you pay off your debts and **build cash wealth at the same time!** That's right. The money you use to pay off your debts won't just go to your creditors anymore. It can also build cash wealth for you, at the same time, using the same dollars!

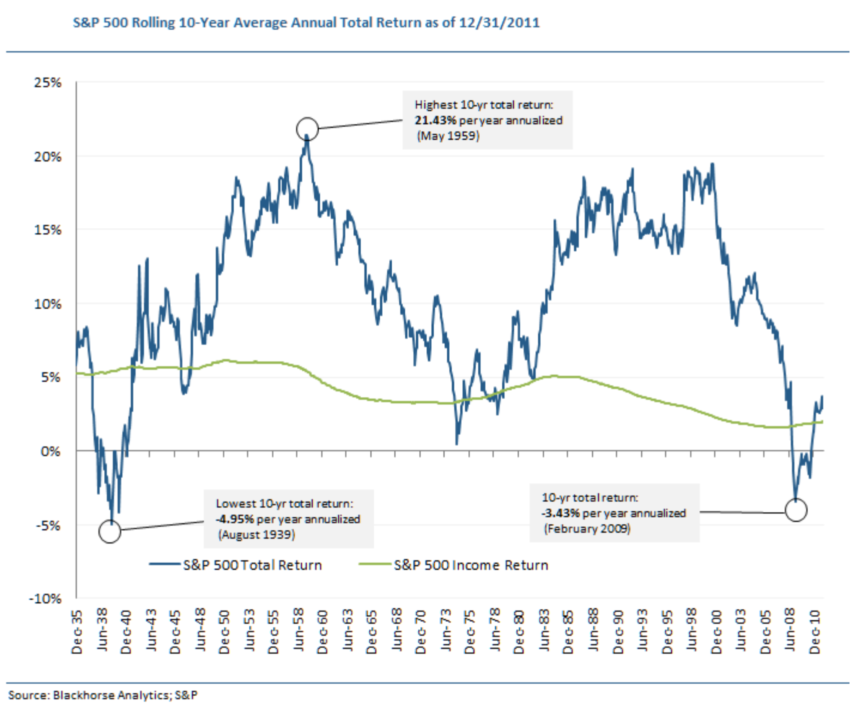
This system is an important answer to me

I've spent more than 20 years showing people all around the world how to pay off their debts as rapidly as possible. Debt-elimination has been my mantra and my goal for the millions of people I've been able to reach. But deep down I've known that – as important as debt-freedom is – it is only half the formula. You also need a system to turn your newly-freed-up income stream into wealth. It must include both a secure place to keep your wealth and a dependable, safe system to grow your wealth.

The stock market is not such a place or system. The following chart speaks for itself. It shows the U.S. stock market's total return over time. While it occasionally peaks, it then takes back everything it gave you. And if you break the chart into decades, you'll find very few that generously rewarded investors. Most produced moderate growth or terrifying losses. Dalbar Inc. is a company which studies investor behavior and analyzes investor market returns. The results of their research show that **the average equity fund investor – for the twenty years ending 12/31/2010 – earned a market return of only 3.83%.**

That number may have you scratching your head. If it sounds low to you, that could be because the market may have been stronger recently. We tend to evaluate most things in our lives by our most recent experience of them, and – at the time of this writing – the stock market has behaved well for the previous 6-12 months, and moderately well since March of 2009. But that short-term view is deceptive when compared to a longer window of 10-20 years. Here are some recent financial news headlines that bear out this memory lapse.

- *Bull Market Erases Investor Memories of 2008-09 Crisis*
- *Fed Low-Rate Tactics Push Senior Citizens Into Stocks*
- *Are Screaming Headlines a Sign of the Top?*

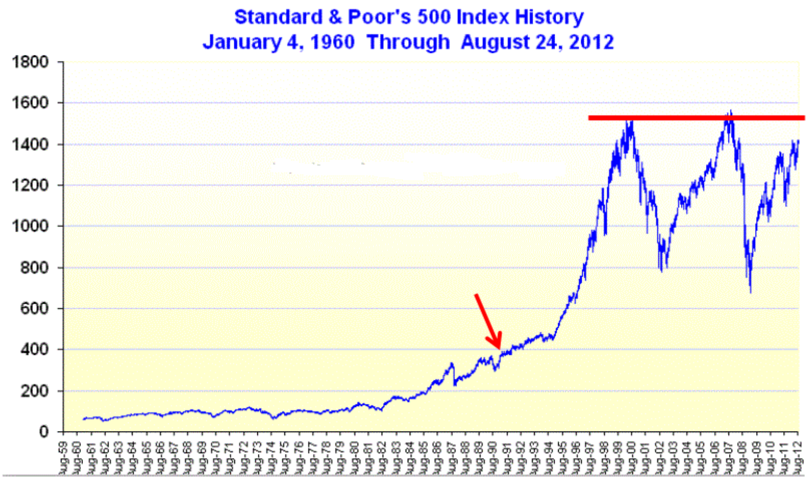


Why is the average investor's return on investment so low? The typical investor gets nervous when the market declines, but they try to hang on. However, if it turns out to be a serious correction or bear market, their patience runs out near the bottom and they sell lower than they bought in. They conclude it's better to be out of the market than to endure such losses. When the market starts a recovery, the inexperienced and now-burned investor doesn't trust it. So they sit on the sidelines watching institutions and experienced individual investors jump in. Finally, after the market has proven to them that it really is going up, they jump back in (buy high) somewhere near the top before the next correction or downturn.

Buying high and selling low is a prescription for going broke. Most people are not experienced enough nor do they have the temperament to successfully manage market swings, so they lose. They feed their money to brokers, mutual funds, and more savvy investors. I'm actually a little surprised they end up averaging a positive 3.83%.

The salient point is that it doesn't matter whether your stocks are held in mutual funds or those mutual funds are held inside a qualified plan like a 401(k). The stock market has proven lethal to millions of would-be retirees, yet most financial advisors and teachers have been telling their followers to, "max out their retirement accounts, dollar cost average, and stay in the market," throughout the past decade of turmoil, toppling, and terror. I, on the other hand, have grown increasingly silent over that time about how to build wealth because I wasn't sure myself! I was sure back in 1991, but since 2000 it's been a new reality.

Here's what changed…



When I first started teaching my debt elimination concepts in 1991 (red arrow), I was telling my students that – once they were debt free – they should pack their newly-recovered monthly cash flow into qualified retirement accounts and invest those funds in the stock market through mutual funds. That was good advice…for the following 9 years. In 2000 the "Tech Bubble" popped, and the market proceeded to lose half its value. But, for someone who started investing in 1999, it lost **all** of its value!

However, the pundits were saying that buy-and-hold was still alive, and if we just hang in there, Mister Market would come back and reward our steadfastness. Well, Mister Market did come back beginning in 2003, and it looked like the pundits were right…until 2008 when the floor fell out again because the real estate bubble popped. OK…fool me once, shame on you. Fool me twice, shame on me. I was through believing the pundits.

It was clear to me that the stock market was not the answer for most people. I knew there had to be a better way. It was clear that my debt elimination focus was still correct. You can't possibly build wealth if you're feeding a third of your after-tax income to creditors. But once you've fired your creditors, how do you safely, securely, and dependably build your wealth with your newly-freed-up income stream? I could no longer answer that question with the standard wealth-building clichés. I had to find a more secure, dependable, and productive way to build wealth – for my family and for those I'm privileged to teach. After years of closely watching the system I'll explain in this book, it has proven itself to check all the important boxes.

- ✓ It must be as **safe** as, or safer than, a CD or bank savings account.
- ✓ It must offer real **growth** potential – guaranteed.
- ✓ It must offer **liquidity** of all of my money, if necessary, without penalties.
- ✓ It must **protect** me from taxes.
- ✓ It must **not require a dramatic lifestyle change**.
- ✓ It must **complete** its wealth-building mission for my family even if I die before accomplishing it myself.
- ✓ It must give me a way to build wealth **with the same money** I use to make purchases and pay off my debts!

About a decade ago people began asking me to check out this unusual financial concept. I looked into it and found it fascinating, but it was sufficiently outside the box that I didn't want to begin trumpeting its benefits without more examination. So, for the next 10+ years I watched this concept and compared its results to all the typical markets we invest in: stocks, bonds, and real estate. I now feel so strongly about its advantages over traditional wealth-building options that I am compelled to share it with you.

I'm convinced this concept should be the bedrock of nearly everyone's personal finances. I feel so much better about this system than I do about the stock market or any other typical investing market that I am moving **all my and my wife's savings and qualified plan money into it as fast as I can.** I am putting lots of my money where my mouth is. I can't tell *you* what to do, but I can tell you what *I'm* doing…where my conviction is today. I sincerely believe that not using this system leaves you exposed to a lot of unnecessary financial risk, and it leaves you throwing potentially hundreds of thousands of interest dollars down the drain as well.

I call this concept *The Banker's Secret to Permanent Family Wealth*™ because it's based on the same principles bankers use to get and stay wealthy. Why do you think businesspeople will set aside millions of dollars in capital, go through the multi-year process of qualifying for a bank charter, and then invest more millions to build bank buildings and advertise for customers? Because they know they will shortly thereafter begin making mountains of money, **and they'll do it without using a penny of their own cash after the front door opens!**

After a decade of watching this vastly-misunderstood concept, I saw the answer to my search for a dependable family wealth-building system. More than that, I saw a way to make that system permanent, so that succeeding generations could become wealthier and wealthier instead of dissipating the money as is usually the case. So let's explore *The Banker's Secret to Permanent Family Wealth*™, and we'll start with the problems you face so you can better appreciate its solutions.