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NEVER OUTLIVE YOUR MONEY

Four foundational lessons for a lifetime of personal and financial freedom

Author's Note

This short collection of life lessons evolved from a personal goal to gather together indispensable, time-tested knowledge for my young son. My hope is that by applying these few fundamental financial and moral principles, particularly throughout the increasing ups and downs of financial, social, and political uncertainty, he will in his later years be able to reflect on a life of abundance and freedom and will never have outlived his money.

While there are innumerable lessons to be learned throughout life, these few principles and practices are foundational to success and can make the difference between a lifetime of dependency and frustration and a lifetime of freedom and happiness. It is my conviction that following these four lessons will not only steer my son to a lifetime of personal fulfillment, but will enable you, too, dear reader, to *live life on your own terms*.

I consider these lessons to be the *Holy Grail of personal and financial freedom*. Therefore, I often refer to this manuscript as the **Grail Manuscript.** The Grail Manuscript is your **WINDOW** on practical knowledge, financial reality, and life planning.

The **Grail Exchange**, an extension of the Grail Manuscript, is your **DOOR** to valuable resources and expertise for taking **ACTION**.

Before we dive in, let's be clear about the definitions and implications of some common terms that, if misunderstood or insufficiently thought through, can distort or skew your understanding of how the real world works.

Money

"If you can write a check for it, it's not a problem." —Dean Graziosi

What a spot-on observation! In the literal sense, money is certainly the ideal mechanism for liquidating annoying problems. Who doesn't want to be able to do that? At a deeper level, being free of distracting, energy- and time-consuming money problems allows you to be in control of your valuable time. You get to live *life on your own terms*—according to *your* purpose. Like it or not, money fulfills needs and wants and provides security and freedom—or as Woody Allen memorably put it, "Money is better than poverty, if only for financial reasons."

Time

The one thing neither you nor I will ever have enough of—time—is our most precious asset, but one that inexorably slips away from us. It can't be recovered. It can't be replenished.

Now consider: how will the world look in 2050? That year is *close enough in time that we can imagine it, but far enough away that we can't confidently say what exactly it will look like*. We do know that it will be hardly recognizable in comparison to today's world. Just look back thirty, even ten, years.

Isn't it worth the effort to carefully map out how you want to spend your time and money from now through the next twenty, thirty, maybe fifty or more years, thus ensuring your personal and financial freedom? Of course. *Time can be your best friend or worst enemy*.

Time is the power behind compounding, an essential principle of wealth-building in which money accumulates at an increasingly rapid rate over time. However, the compounding effect also applies to knowledge and technology, which dramatic advances we have all witnessed just over the past few years. What happens when knowledge and technology increase, inexorably and even exponentially, over the next ten, twenty, or thirty years? What world will you be living in when 2050 arrives? What issues and opportunities will you be dealing with? What's your plan?

Technology

Relatively few people are aware, or perhaps they are vaguely aware, of the innovations that science and technology are bringing into reality at breakneck pace and how soon our lives will be transformed into a new reality with its own set of challenges and opportunities. Today, artificial intelligence and robotics are on a trajectory toward a future in which robots will outperform humans both physically and intellectually, enabling them to run entire businesses by themselves. Genetic engineering and gene therapy have already brought us mass-produced insulin, human growth hormones, and cures for many genetic disorders. And many more wonders are already on the way.

The science of extending life has made serious strides in slowing down or reversing the process of aging to extend the maximum and the average lifespan, even to 120 years or more. (Scientists have already found a way to regenerate new teeth!)

The lesson here is that *the present compounds into the future*—the effect of time on knowledge, technology, and earnings is an exponential, not a linear process. Your future is promising if you stay on top of progress, trends, and time, and remain poised to **act**.

Wealth

The manner in which we choose to live is generally predicated on knowing we will die. But if you live radically longer, or just longer than you expect, the effects of that miscalculation can be profound. How will you finance, organize, and optimize your more abundant, if unexpected, time? You don't want to crowd out quality time with unproductive, frustrating time. Will you have taken advantage of ever increasing opportunities to live healthier, longer, more knowledgeably, and with abundant satisfaction? You will need sufficient capital not only for sustaining your physical life but also for exploring and experiencing life itself—expanding who you are and defining what your epitaph will be.

Money is only a component of wealth. Wealth is ultimately the measure of freedom to *live life on your own terms*; freedom to grow and enjoy a worry-free lifestyle unimpeded by financial uncertainty or dearth of knowledge; thus, to be able to fully share your abundant world with those you love.

These foundational lessons provide you with the insights and means for expanding the scope of your opportunities, taking action, and ensuring that you *never outlive your money*.

Sir Contra de Malta

August 2018

Preface

Sir Contra de Malta and his long-time friends, associates, and professional contacts have spent many years teaching individuals, businesses, entrepreneurs, and retirees in the Americas, Europe, and Asia about the accumulation and preservation of wealth. Their collective teachings, through lectures, books, essays, and newsletters, as well as onsite and online seminars, provide a rational look at the real world and the rapidly transitioning social, political, and economic world. These independent thinkers are not beholden to any governmental entity or corporate objectives. Their advice and opinion stands or falls in the marketplace of ideas and free exchange.

There is little doubt that over the coming years you will experience historical transitions in what constitutes money and where it can be securely kept; the regulation of your personal property and privacy rights; your freedom of movement; along with creative regulations to keep you in line and on board; thus perhaps changing what your life as a whole generally feels like. The mission is to make you privy to the wealth-building principles and practices of the richest 2 percent—those who remain free and independent in any environment or set of market conditions.

The observations and insights herein are a curation of knowledge and experience with a single purpose in mind. The objective is for you to create and maintain your own sustainable blueprint—your plan—for building a secure and lasting estate, one that you and your family can rely on regardless of economic, political, or cultural uncertainties.

Manuscript Lessons

Lesson I: Prosperity Mindset 10 minutes

You want to stay out of the trap Napoleon Hill famously observed:

> "The vast majority of people are born, grow up, struggle, and go through life in misery and failure, not realizing that it would be just as easy to switch over and get exactly what they want out of life, not recognizing that the mind attracts the thing it dwells upon."

And it doesn't take a library of self-help and self-actualization books: just an understanding of several fundamental mindset realities.

Lesson II: Roads to Prosperity 90 minutes

Know your foundational asset classes and how they can work in tandem for asset growth and protection:

BUSINESS OWNERSHIP: Owning a business is first and foremost about being your own boss. Keep in mind that every business started out as a product or service built upon and around a skill. Provide your skills in service to the objectives of others. Opportunities are endless.

PASSIVE INCOME: Passive income strategies, such as stocks and bonds that follow time-proven asset allocation principles, will generate ever-increasing prosperity throughout your lifetime. Learn how to leverage patience and time to your personal and financial advantage.

PRIVATE EQUITY: There will be more millionaires and billionaires in the next ten years than in the entire history of mankind, and they are the people who prudently invest in private equity. A small portion of capital invested with superior management teams can create life-changing results. Learn the basics and get to know top venture capitalists.

NATURAL RESOURCES: There are periods in the business cycle when the supply and demand for resources gets completely out of balance, thus creating opportunities for returns of ten to twenty times the original investment, or more. Understand today's opportunities in rational speculation versus gambling for potentially meteoric returns. Meet the experts who paved the way to highly successful resource investment strategies and have set the performance bar high.

REAL ESTATE: Real estate investments of various kinds, structures, and locations can provide opportunities for income, gain, and asset protection in any market. Technology makes buying and selling globally a welcomed reality. Learn about the sectors, cycles, and opportunities.

Lesson III: Asset Allocation 60 minutes

This indispensable investment strategy determines where you end up in life:

Asset Allocation is an investment plan that balances risk and reward by apportioning your portfolio assets according to your goals, resources, risk tolerance, and investment horizons. *Over time, no other set of financial decisions you make will impact where you end up in life more than how wisely you allocate your assets.* Key asset classes, properly balanced, can exponentially leverage even modest investments in a surprising way. Your *asset allocation plan* guides you safely—and even profitably—through market melt-ups, melt-downs, and debt jubilees. Learn how to navigate ever-shifting financial market conditions.

Lesson IV: Protective Trusts 25 minutes

Protective trusts are essential for keeping what's yours:

Engage only seasoned professionals who can help structure proper legal ownership vehicles, both domestic and international. Proper ownership structures provide security for you, your assets, and your family. Appropriate legal structures are absolutely necessary for:

- protecting your assets from credit claims and frivolous lawsuits
- diversifying risk and opportunities across multiple jurisdictions
- significantly reducing income taxes
- reducing or eliminating inheritance taxes and probate fees

Introduction

Note to my son: *Of course, dear boy, we never stop learning throughout our lives, but some lessons are foundational to our education, worldview, and overall success. I believe that these lessons are indispensable for achieving true freedom and happiness. And real freedom is being free of debt. Financial freedom is freedom. A person in debt is in a very real way a slave. His chains are financial rather than made of iron. He is compelled to work in order to pay his debts. There are no clever, legal ways around this. He has masters to answer to. He hardly has time to think through asset creation, growth, and protection strategies.*

Read this manuscript, not as you would a novel, or a how-to or step-by-step guide. Consider each lesson as a short, compact essay exploring a specific, fundamental topic. Four of them. Things to remember.

The links strategically located within the manuscript open pages on the Grail Exchange website. These pages include **author profiles**, **recommended reading**, **research & services** *(web links), plus timely, relevant* **articles and blogs** *by authors. You can also access* **Planning Tools** *for understanding the numerical impacts of your financial objectives, assumptions and consequent returns. The point is, when you are ready to dig further into a topic, when you are ready to develop your own action strategies, the resources are there—a click away.*

After you have read the manuscript from top to bottom, a three-hour read, you'll understand why only 2 percent of retirees are financially independent and why 78 percent of Americans live paycheck to paycheck.

You'll think about education differently. Education isn't about sitting in a classroom—it's about understanding the lessons of history and the realities of today—which are not taught in school.

You'll understand that compounding and asset allocation are fundamental to successful portfolios. And you'll have learned to recognize and leverage both crisis and opportunity. You will also want to look beyond artificial borders to a world where many opportunities exist in addition to those available at home.

You'll engage seasoned experts and cultivate wise mentors who have your best interests at heart. Beyond providing answers, these lessons will help ensure that you ask the right questions as you navigate your path to success, freedom, and life on your own terms. These are four foundational lessons you simply can't afford to ignore.

Everyone who is financially independent at some point took control of their lives and learned how to make good financial choices.

> "There are two ironclad reasons the rich keep getting richer. The first is pure mathematics. Wealth compounding creates more wealth. There is another ironclad reason the rich keep getting richer: there are proven rules of wealth creation. And they follow them. Unfortunately, most people don't. Instead, they carry high-interest debt. They don't save enough—or at all. They don't invest what they do save wisely. In short, they don't make good financial choices."
>
> —Alex Green, chief investment strategist at The Oxford Club

There you have it. Alex Green nails it. The "rich" are the 2 percent who are financially independent versus those who don't understand that *wealth compounding creates more wealth* and don't know or follow the *proven rules of wealth creation* and they *don't make good financial choices*.

Are the 2 percent simply smarter or luckier than the other 98 percent of people? That's doubtful on the whole; as the adage goes, "The harder I try, the luckier I get."

Because public school curriculums don't teach financial skills or how to operate a business, the wealthiest 2 percent have independently pursued *valuable lessons their teachers neglected to mention*. And they further enhance their education by continually learning from other successful people who are enjoying their own lifelong personal and financial plans and the people and activities they love.

Look well, Arthur, for it is your task to seek the Grail. That is your purpose.

—Merlin to the young Arthur

Your personal Holy Grail is your self-reinforcing set of principles and practices that ensure that beyond just surviving, you live the life you desire.

Here's an informal way to sum up the overarching takeaway that I hope you gain from this manuscript:

> *Don't chase rabbits—exploit proven roads to prosperity; compound your earnings over time; know that how you allocate your assets is more important than individual assets; employ protective legal structures for your assets and your loved ones; get to know smart, successful people; and be generous with your prosperity and time.*

The lessons herein are based on the premise that attitudes, habits, and practices over time have a predictable range of outcomes. Simply said, *your actions have a predictable range of consequences*. This is how the world works and is crucially important to keep in mind.

Going Forward

Many people already understand and practice Grail Manuscript principles and strategies. But if your career is just beginning, or if you need opportunities to reboot, then this set of door-opening lessons is particularly timely for you. While the Grail lessons can be of enormous benefit to anyone, you have an opportunity to start maximizing your wealth early and enjoy a long life of freedom and peace of mind.

If you are of the Millennial, Gen X, or middle Boomers generation (let's say born between 1960 and 1990, roughly between twenty-five and fifty-five years of age), the Grail Manuscript and Grail Exchange provide you a stable, conceptual framework and the resources for customizing and implementing your plan.

So…How Long Will You Live?

Whether you are twenty-five or fifty-five, the odds are quite high that you will wake up one morning to discover that you are seventy years old. Dealing with the near-term hustle and bustle of life can make the future seem like a distraction—but nothing distracts the steady march of time.

On that day you will reflect on one of two possible circumstances that you find yourself in: you will be thankful that your plan continues to serve you well, and you will look forward to many more years of comfort and freedom. Or, you will find yourself among the 98 percent of retirees who remain financially dependent. And hopefully, you aren't in the 78 percent of Americans who live paycheck to paycheck.

The average lifespan today is seventy-six years for men and eighty-one years for women.

90 percent of men and 93 percent of women live to be seventy.

62 percent of men and 71 percent of women live to be eighty.

22 percent of men and 34 percent of women live to be ninety.

You're probably in the 90 to 93 percent of those expected to reach at least age seventy. And it's likely you wouldn't mind being in the 22 to 34 percent who stay around quite a bit longer. Better have a plan. It's never too late—even at 70 years young!

And there is an abundance of optimism that significant life extension technology is on the way. Consider the following headlines:

- "Average Life Expectancy Is Expected to Pass 90 for the First Time Ever," *Science Alert*
- "Study: Compared to 1990, 33% More People Are Living Past Age 70," *The Atlantic*
- "About a quarter of the variation in human lifespan is governed by genes, leaving 75% that is influenced by our environment, diet and lifestyle," *The Guardian*
- "A 50-year-old man born on July 1, 1960 currently has a life expectancy of 81. Once he makes it to age 67 his life expectancy grows to 84.4 years," *US News*
- "Live forever: Scientists say they'll soon extend life 'well beyond 120'," *The Guardian*

And finally, from *Scientific American*:

> Google co-founder, Larry Page, launched a biotech company called Calico, which aims to extend the human life span by a century. Calling it "a longer-term bet," Page said he was confident they "can make good progress within reasonable timescales with the right goals and the right people." One of those people is Ray Kurzweil, the scientist and futurist (and now a director of engineering at Google) who thinks that if we can survive until the 2040s, we can "live long enough to live forever."

Amidst all the optimism and progress toward longer, more satisfying life, it is disheartening to learn that the National Institute on Retirement Security reports that:

- The median retirement account balance among all working U.S. adults is $0.
- The average (i.e., mean) near-retirement individual has less than 8% of one year's income saved in a retirement account.
- 77% of all American households aren't on track to have enough net worth to retire.
- The current wave of senior poverty could just be the beginning.

Realistically, we're all on a one-way path to old age, howsoever one might feel about it. The bottom line is, you have to be engaged, prepared—and optimistic—about that future day when you wake up and want to reconcile where you have been, where you currently are, and what the rest of your life holds.

Master Your Destiny

The lessons are straightforward, easily understood, easily remembered, and easily practiced. But first, let's be sure that we have a shared understanding of the meaning and spirit of terms that are all too often misunderstood or misinterpreted, and sometimes even manipulated.

- ➢ **Assets**: what you own and can freely trade for other things you want
- ➢ **Wealth**: freedom to enjoy a worry-free lifestyle—*life on your own terms*
- ➢ **Money**: trading units that support your lifestyle and build your wealth and freedom
- ➢ **Rich**: decide for yourself—several hundred thousand dollars in the bank, a few million dollars?
- ➢ **Success**: accomplishments resulting from personal commitment and effort
- ➢ **Never-ending Wealth**: not outliving your money if you live another one hundred years

Finding your own Holy Grail is about building and keeping your wealth and freedom through patience and peace of mind over time. Mastering time, not the size of your portfolio, is your most valuable tool. And asset allocation, not the amount you start with, is your most indispensable strategy. The Grail Manuscript lessons are simple to understand, easy to follow, and do not require advanced degrees, just common sense. These principles are grounded in integrity, patience, self-reliance, rational thinking, value-for-value, and hard work. The alternative is a life of disappointment and dependency on others.

Understand that your future depends on your thoughts and conclusions as to how the world works, your awareness of crisis and opportunity, and your commitment to action. The future need not be happenstance. Your well-conceived *life plan*, *foundational lessons*, and *asset allocation plan* will keep you mindful of the principles and practices that are well understood by successful and independent people. Your freedom and fortune will grow to the extent that you do.

Lesson I: Prosperity Mindset

10 minutes

Note to my son: *Take the time and effort to know what <u>you</u> believe, particularly what you believe about yourself and your objectives. Everything originates in the mind. The future you strongly believe in is what is likeliest to unfold. Invite success; it's not accidental. To keep on track, periodically list your principles,* *values, and objectives as bullet points. Always avoid negativity and negative people, and surround yourself with positive influences. Doubt cramps energy—belief is power.*

Abundance and happiness are results, not causes. Wealth and the freedom it brings do not come without your personal invitation. You are and become who and what you think you are. Everything begins with your thoughts. Every thought that you experience originates in your conscious mind and then is stored in your subconscious mind. Your subconscious mind functions involuntarily, with or without your input and direction. It works twenty-four hours a day, seven days a week, and eventually carries out your dominant thought impulses.

However, not all the knowledge and impressions that a person's subconscious mind has accumulated over the years are necessarily true and accurate. Let's look at an example: the majority of people seem to believe that prosperity and financial freedom are an accident of birth or sheer luck. Yet, we find that luck somehow eludes people who persist in the belief that achieving success and freedom is based on happenstance. Negative thinking concerning wealth and money creation chokes off your mindset for success. You get trapped in a morass of negativity, which blunts access to the potential within your subconscious mind and your ability to channel your energy and actions toward the fulfillment of goals. Thinking negatively simply attracts negativity. Only thinking and acting on positive thoughts brings the fulfillment of your goals and success.

There is an intimate connection between wealth creation and the subconscious mind. Kenneth McRae, author of *Success Consciousness* and *Meet Your Higher Self: Harnessing the Infinite Power of Your Subconscious Mind*, insightfully sums up the power and role of our subconscious mind:

> While your subconscious is all powerful, it is nevertheless guided and influenced by the nature and quality of your habitual conscious thoughts. If your conscious mind habitually thinks that serious money is almost impossible to come by, that wealth is somehow wrong and that hardship is the order of the day, your subconscious will react accordingly and both create and attract hardship and financial difficulty into the reality of your life. However, if your conscious mind is habitually imprinting positive thoughts about yourself, money, and success into your subconscious, then your subconscious will create and attract money and success into your life.

In other words, *the nature of your subconscious mind creates your reality*. This, perhaps, is why positive-minded people tend to be luckier than negative-minded people.

Prosperity Is a Mindset

Prosperity can be whatever you deem it to be, but not clearly knowing your own mindset can put you in dire situations. A mindset is defined as: *a habitual or characteristic mental attitude that determines how you will interpret and respond to situations.* A prosperity mindset encourages you to take conscious action each day and review your understanding and responses to the challenges and opportunities inherent to your health, wealth, and love.

"Creating true prosperity isn't only about money. It can be, however, about changing your mind about money. True prosperity encompasses and enhances all areas of your life: financial, health, career, relationships, and spirituality*."* —Possibility Coaches.

To that end, you will do well to adopt the following habits:

- Never stop listening and learning.
- Live in the present, conserve for an unending future.
- Appreciate what you have; don't dwell on what you don't have.
- Focus on what you want in accordance with your plan.
- Seek results and solutions, minimize distractions.
- Make service an integral part of your practices and principles.

By following these guidelines, your mindset will create your physical reality and a path to the life you want. Once you understand that you have unlimited potential to create and produce, you will be amazed at the results you achieve!

Set Goals

If you have no goals, you have no direction. Set big, well-thought-out goals, push your limits, and know that you can achieve them if you just take action—sustained action. You can dream all day about where you'd *like* your life to go, but without a goal and an action plan, *nothing will happen*. Take time to think about the big picture, and then fill in the steps for how you're going to get there. Choosing goals wisely, and strategies for achieving them, has everything to do with how you have formulated your own prosperity mindset.

Believe in Yourself

Unfortunately, most people are not driven to get ahead in the slightest. They are happy working their daily jobs, skating through life without any real ambition. The problem is that some of these people are not action takers and they don't particularly like others who are. This can often result in them pulling other people's dreams and aspirations apart.

When entrepreneurs undertake a project or dream, they often battle with their own internal demons. They think to themselves: "Will this work?" "Will I be able to raise capital?" "Is this a good idea?" "Can I find competent talent?" "Will others see the value in this idea?" Asking these questions is a natural outcome of getting out of your comfort zone and actually doing something—taking an idea and turning it into a reality. It might be risky, there may be a level of uncertainty, but if you don't try, you will never know. You will never actualize your dreams or live *life on your own terms*.

You see, you have to believe in what you are creating and the value it will bring to others. Not believing in oneself is one of the biggest success killers known to man or woman. It's all to do with mindset. If you don't believe in yourself, then your idea's potential has no foundation for materializing. Nothing is ever created in the physical realm without first being visualized in the mind.

Considerations & Takeaways

- Never allow others to define who you are—or determine your goals.
- Live life on your own terms.
- Doubt cramps energy—belief is power.
- The mind attracts the things it dwells on.
- Learn to focus on what matters, not on everything that's interesting.

The subconscious mind can ruin a person's life unless it is programmed to work in one's best interests. Know who you are, know your objectives, set realistic goals, and believe in your commitments in order to best fulfill your Roads to Prosperity.

At Lesson Resources > Prosperity Mindset you can find both inspiration and actionable strategies for fulfilling your objectives—your life plan.

Lesson II: Roads to Prosperity

90 minutes

Note to my son: *As soon as possible, become your own boss. Invest in your own business—invest in yourself. Customize the path you take based on your interests, natural abilities, sense of commitment, and realistic aspirations. Make value-for-value a cornerstone of your business ethics. Know your asset classes. Understand the difference between commodity money and fiat paper. Recognize the difference between gambling and rational speculation. Hasten towards personal and financial independence—the road to freedom and happiness.*

Not everyone utilizes the same information or employs the same degree of judgment, commitment, and focus toward sustainable wealth and freedom. Some just prefer not to bother. Perhaps others never learned where to look, why it matters, or what to look for. Yet I believe most people can get and stay rich, that is to say, free and happy to the level they aspire; they just need to know how. No one tells you how to acquire wealth, freedom, and happiness, nor what it all actually means. These are *valuable lessons your teachers neglected to mention*.

These Roads to Prosperity are not the only paths to wealth, not by a longshot. But these roads have been proven fundamental to wealth creation throughout time. You can manage one or all of these roads to create your own freedom and lasting wealth. All Roads to Prosperity can succeed in both good and bad times. Collectively, they constitute the core asset classes in your portfolio. They are the components of your Asset Allocation Plan, which includes **business ownership**, **passive income** (stocks & bonds), **private equity**, **natural resources**, and **real estate**.

Why These Roads?

Certainly, there are innumerable paths to financial success, but the surest roads are those that are time-tested, well understood, readily managed, and have been used for generations by the successful: those who have achieved independence and happiness, the wealthiest 2 percent.

Roads to Prosperity contemplates you being (or becoming) your own boss while spending minimal time maintaining your investment portfolio—your Asset Allocation Plan. The objective is to eliminate the need to watch all assets daily, and thereby remain immune to the emotional ups and downs of daily market moves. You recognize that markets move within a range above and below a mean that rises over the long term. Different asset classes can have different performance objectives and horizons, adding stability to the overall horizon objective. Your portfolio contains a mix of uncorrelated investments chosen to ensure progressive balance and counterbalance toward long-term growth in wealth.

Your strategy starts where you are right now. You can begin putting together your end goal—where you intend to be—by first understanding where you are.

Where Are You Today?

Profoundly Disconnected?

What is your current financial situation? Perhaps you are profoundly disconnected in matters of wealth creation and preservation, or perhaps you're just clueless as to how the world works. Why not commit to raising your expectations and adopting the goal of *life on your own terms*? Prosperity Mindset principles and practices can help align your thinking with the opportunities inherent within yourself, and deepen your understanding of the consequences of failing to take action.

Underemployed?

Let's take a quick look at job prosects. True unemployment in June 2017 was 22.1 percent according to Shadow Stats, the go-to authority for unbiased economic data. As of January 2018, student loan debt sits at over $1.48 trillion, spread out among about 44 million borrowers with 11 percent of former college students currently in default.

Notice that almost everyone has a degree, and things that everybody has are of less value. Look, too, at the many graduates not employed or underemployed and frustrated. The kicker is that there are over 3 million good jobs available that nobody seems to want. Why? People have been cajoled into the absurd notion that the only way to get ahead is with a piece of paper from a college. Getting an education is strictly a matter of motivation and self-discipline, not paying money to sit in a classroom. Nobody can "give" you an education; it's something you must gain for yourself. Roads to Prosperity introduces a world of opportunities for getting started as an apprentice or entrepreneur.

Reluctant Student?

What are you after? Is it worth it to acquire a substantial amount of debt to start your journey? For careers in highly rigorous disciplines like medicine, engineering, science, accountancy, and law, among others, the answer is yes, higher formal education is essential. But if your objective is to one day be your own boss and be financially independent, ask yourself, is four or five years of racking up financial obligations the best approach to your goals?

A fraction of the cost of a typical college education, oftentimes a six-figure sum, applied more directly to one's goals can often be a more successful, time-saving strategy. Oh, did I mention it's also more cost effective?

Apprenticeship is more accessible and affordable today than ever before. Information, knowledge, contacts, and many collaborative tools, all available online, make it easier than ever to establish working relationships among all stakeholders in the business processes: the mentor and apprentice, the boss and employee, the service provider, the financier, and the customer.

Get connected, and get a job or apprenticeship where you can master a skill. Every business starts out as a product or service built upon and around a skill. Business Ownership can provide you with valuable ideas and directions for getting started and executing your plan. Also, from *The Daily Bell*, here are some great insights to current opportunities: The Skills That Win the Financial Freedom Game.

Wage Earner?

You might be a wage earner new to the workforce, or just beginning to build your investment portfolio, or carefully planning to launch your own business. You know enough to put at least 20 percent of your earnings toward the future. You have learned how to learn. Your prosperity mindset is established. The inevitabilities of compounding and asset allocation are understood.

The Lesson Resources and Resource Library found at the Grail Exchange are a treasure trove of timely books, current information, expert insights, and professional contacts to support your research and thinking.

Retiree?

You are a retiree or about to retire. You currently have an accumulated asset base and valuable personal experiences through the years to draw upon. This is the time to use the Portfolio Estimator to determine the effects various time horizons and estimated return objectives may have on your current portfolio going forward another twenty or thirty years or more. At the Resource Library, you have access to some of the best thought leadership on important topics of interest to you.

You might be surprised to learn what informed asset selection and appropriate asset allocation can do for your portfolio. You don't need a paid advisor to help you interpret various projected results (financial returns) based on your testing of various time periods and expected return assumptions.

Protective Trusts introduces strategies and opportunities for diversifying risk and improving portfolio performance. And Mark Nestmann, founder of The Nestmann Group, wrote a great article for retirees who don't want to be *that* retired: Why (and How) You should Run a Business When You Retire.

Portfolio Investor?

Perhaps you have your asset allocation plan in place and are continuing to build passive income and generational wealth. Or maybe you're well on your way to becoming a member of the 2 percent who are free and financially independent. The Grail Exchange Lesson Resources can help fine-tune your strategies or spark some useful, creative ideas. The Research & Services directory is always available for investigating financial and planning concerns, strategies and solutions, topical research, and forward-thinking insights. And Going Global introduces you to a surprising world outside the borders of your home country where superior opportunities, safer jurisdictions, and less onerous regulations and restrictions exist.

Now you're positioned and ready to build, or take up a level, your income and wealth.

Business Ownership

Founding your own business can create an abundance of wealth, freedom, and personal satisfaction. You can do this regardless of industry, education, or degrees. There are no resume requirements for starting a business, and you can launch your business from your laptop.

America's economy is 80 percent services, which creates endless new business opportunities. Find something that you love to do, and do it well to benefit others. Previous successes or failures are not a prerequisite, although failure is a powerful teacher and should be viewed as such. Most businesses fail in the first four years. Not yours. You understand hard work, resourcefulness, and how to overcome adversity to succeed, which is well worth the effort.

Entrepreneurs change the world by creating something new that saves time, money, or meets an unfulfilled demand, or by making existing products and services better and more efficient.

Simon Black, founder of SovereignMan.com and Sovereign Man: Confidential, summed up the opportunities and benefits of business ownership nicely in his *Notes from the Field*:

> I've long argued that a great business is one of the best "real" assets to own. It can provide so much benefit—cash flow, tax deductions, estate planning vehicle, asset protection, etc. Plus, in times of inflation, a great business increases in value, so it's a fantastic hedge. In times of deflation, a great business generates highly valuable cash flow. In good times, a great business expands and makes big profits. In bad times, a great business weathers the storm and increases its market share as its phony copycat competitors get flushed away. There aren't a whole lot of asset classes that provide such diversity of benefits.

Starting small is a major key to success. Dream big and scale up your business over time to increase profits and liquidity options. There are millions of products and services that can be improved or eliminated by applying new technology and your own ingenuity. Moreover, you don't have to go it alone initially. You can also be a partner with someone else who is creating the next big thing with your contribution assisting to build significant wealth. (As long as you're thinking, why not think big?)

Considerations & Takeaways

- Does the business have the potential for profitability now and in future years?

- Will it be able to do well even in uncertain economic times?
- Do you have a financial model for proving up numbers?
- Does running the business require a degree or decades of experience, or only passion for the industry?
- Does it require large amounts of startup capital, or only what every startup business requires: dedication, hard work, perseverance, and a desire to succeed?

Successful entrepreneurs are always willing to risk their time, startup capital, energy, and resources with no guarantee of returns. The aim of a successful entrepreneur is to solve problems for people and to earn a great reward for doing so. Once you commit unreservedly to following one or several of the roads to prosperity, nothing can stop you from achieving your goal.

See Lesson Resources > Business Ownership for research, ideas, trends, actionable information, and insights for getting started or expanding your enterprise.

Passive Income

"Most investors overestimate the wealth they can create in a year and massively underestimate the wealth they can create in one or two decades." —Tony Robbins

It has been resoundingly proven that you can be a passive stock market investor and outperform 96 percent of those who manage money actively for a fee. Passive investing in the market means receiving returns based on the overall market. Active investing means trying to beat the market average by selectively assembling and reassembling stocks through various schemes.

Einstein said: "Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it." Time is the power behind compounding wealth, knowledge, technology, and earnings. Time will either be your best friend or your worst enemy, and it can be your greatest investment tool. Modeling different investment allocations, return objectives and time horizons provides a valuable perspective on the effects of your assumptions.

Working Income versus Passive Income

> "Not all income is created equal. In fact, the Internal Revenue Service categorizes income into three broad types: earned income, passive income, and portfolio income. While passive and

> portfolio are generated via investments, earned income is either employment (Form W-2) or self--employment (Form 1099) income. The principals and methods governing the three are substantially different, and most importantly, the rules relative to taxation are different as well. In my opinion, knowing these distinctions holds the key to financial freedom." —Ben Leybovich

Simply put, *earned income* is what you get paid by working at a job as either an employee or an independent contractor. Working income is the money you earn from the fruits of your labor and your own time, sweat, and energy.

The Internal Revenue Service defines *passive income* as income from "trade or business activities in which you do not materially participate." In other words, passive income is the money you earn without actively working.

Portfolio income is passive income resulting from paper investments like capital gains, dividends, and interest income that you might receive from owning stocks and bonds.

While passive income is generally the domain of investments that require *some* management but little or no labor (such as real estate, private equity, and natural resources), both passive income and portfolio income belong to the world of investment and both types of income are a lot more passive in nature than earned income.

The Impact of Investment Costs

Even before you deduct the costs of investing, beating the stock market is a zero-sum game. The fees and costs of investing reduce the gains of the winners and increase the losses of the losers, which means the Wall Street brokers, investment bankers, money managers, and financial-system intermediators are the only sure, guaranteed winners—regardless of performance in the investment industry. Wall Street compounds its fee profits whether you win or lose. With all its fees and hype, one might conclude that this investment service is a bit unnecessary. One might be correct.

Costs skyrocket when large annual fees, large performance fees, and active trading costs are all added to the active investor's equation. Fund managers accentuate this cost problem because their fees are superimposed on the large fees charged by the funds they represent. The fees you pay can deprive you of a far larger sum due to the reverse of the compounding effect! The fees you pay are lost to you forever—and thus, unavailable to contribute to the compounding effect and your own well-being.

Stock Indexes

“Financial, stock, and bond market indices consist of a hypothetical portfolio of securities representing a particular market or a segment of it. (You cannot invest directly in an index.) For example, the S&P 500 is the benchmark for funds such as the Vanguard 500, which mirrors the S&P 500 components.”

—Investopedia

Active Stock Investment Approaches

There are currently two typical approaches to most stock investing, in addition to numerous other approaches and some creative theories. The first typical approach, undertaken by far too many people (let’s call it the DOA approach), occurs when the investor has missed the good news that passively managed portfolios outperform actively managed portfolios 96 percent of the time, and does not know that trying to beat the overall market with individual stock selections usually turns out, after all, to be nearly a crapshoot. Attempting to exceed market returns means taking on greater risk; and too often, fees, both hidden and clearly announced, are unreasonably high, thus, substantially reducing your overall return and terminal wealth.

Nevertheless, the DOA investor generally relies on an advisor, which for purposes herein includes mutual fund managers, hedge fund managers, financial advisors, and financial planners, possibly a newsletter or two, and maybe a brother-in-law’s tips. Impulses and emotions, and perhaps misinformation or gullibility, play a big part of the DOA’s investing experience.

The second typical approach (also the mantra of mainstream financial advisors and money managers) is derived from Modern Portfolio Theory (MPT), which was born out of academia and is replete with statistical theoretical models. A buy-and-hold strategy is endorsed, where higher-risk securities can be aggregated with other investments and asset classes with lower risk in order to balance out the results. A variation of MPT is tactical asset allocation, where the investor or advisor actively balances and adjusts how each stock is weighted in order to minimize risk and maximize returns relative to the primary indices, i.e., playing the indices.

Passive Stock Investment Approaches

"Passive investing is an investment strategy that aims to maximize returns over the long run by keeping the amount of buying and selling to a minimum. The idea is to avoid the fees and the drag on performance that potentially occur from frequent trading. Passive investing is not aimed at making quick gains or at getting rich with one great bet, but rather on building slow, steady wealth over time." — Investopedia

There is general agreement among experts as well as hard evidence that it is difficult, to say the least, to beat the overall market. All mutual funds and hedge funds rarely outperform index funds over the long run. Plus, individuals who manage their own portfolios have certain advantages over institutions and can therefore capitalize on institutional constrictions.

Unlike institutions, individual investors need not employ or experiment with shorter investment horizons in order to compete with returns at other institutions. Nor are individual investors locked into prevailing academic theories so that they can fit in with conventional wisdom, otherwise known as groupthink. And, of course, there are no institutional fees layered upon fees continually diluting your investments.

Compound Earnings

Mastering Time

Mastering time is about leveraging your most precious asset for personal and financial advantage. The first step of investment is taking a long-term perspective. Know your objectives and have a clear mental picture of where you intend to go and how you intend to get there. Managing time and managing information over a *long period* is how lasting wealth is acquired without ever having to start over. It requires patience and the passage of time to harvest never-ending wealth.

Instant gratification is the number one enemy of wealth. People who forgo immediate rewards in favor of long-term goals are, by and large, more successful. This may seem like a quaint and contrarian position to hold today in light of the prevailing culture of instant gratification and ambition for the sake of ambition, but disciplined saving and investing for a broader, fuller life is more than worthwhile. Not so for the alternative.

> “What is the most valuable thing on earth? Time, because everything is acquired in time and all of man's business is conducted by time. You could have food, clothing, fabulous homes, wisdom—have all you want, but if you do not have time, it means you have nothing. By losing time, we lose everything. We even lose ourselves.” —Bishop Jeremiah the Hermit, circa 721 AD

Leveraging Time

Maintaining a long-term perspective is the key to successful investing. Short-term market performance is unpredictable. Daily price swings occur, often for irrational reasons, which is why long-term investors ignore short-term distractions. To better understand the long-term perspective, look at the performance of any major stock market index over a twenty-, thirty-, forty-, or fifty-year period. For example, according to historical records, the average annual return for the S&P 500 since its inception in 1928 through 2016 is approximately 10.3 percent.

It is unrealistic to expect that any investment or investment strategy will always deliver positive results over the short run. Moreover, it is important to remember that a bad year does not necessarily reflect a bad strategy; factors beyond our control, such as war, terrorism, bad weather, market mania, or simply the need for companies to capitalize on new manufacturing or distribution facilities, can cause temporary market aberrations. Yet over time, these setbacks are just blips on the radar screen and not valid reasons to abandon a successful, long-term investment strategy.

> “Stocks work best when they are held a long time and you let the power of compounding turn a little into a lot. And not selling means no capital gains taxes to drag down your returns. Keep in mind the basic 100-bagger math: a 20 percent return will turn $1 into $100 after about twenty-five years.”
>
> —Chris Mayer, author of *Invest like a Dealmaker*

A Lesson to Remember

Time is the power behind compounding**.** By reinvesting earnings over a long period of time, you receive earnings on your earnings, in addition to the earnings on your original investment. The holding period and annual rate of return of your investments can have significant effects on the outcome.

Let’s look at the investment results of twin brothers Bob and Gary Jones. The Jones brothers just turned sixty-five and they both spent a number of years planning for comfortable retirements. Bob opened a retirement account at age twenty and invested $4,000 a year for the next twenty years until the age of forty. Bob then stopped funding his account, but let his money continue to compound at 10 percent per year until he retired at age sixty-five. Gary, on the other hand, was a procrastinator; he didn't open his retirement account until age forty. Gary, like brother Bob, also invested $4,000 a year at 10 percent annual return. He continued his $4,000 a year investment for the next twenty-five years until he turned sixty-five.

Let's look at how much wealth Bob and Gary had accumulated by their retirement age. Bob, who started compounding earlier, invested a total of $80,000 ($4,000 per year times twenty years at 10 percent annual return), while Gary, the late starter, invested a total of $100,000 ($4,000 per year times twenty-five years at 10 percent annual return).

Never underestimate the exponential power of compounding. Bob's retirement account was worth more than $2,480,000 at retirement. Gary, who started later (and even paid in $20,000 more!), had an account value of approximately $393,000 at retirement. That's a difference of $2,087,000!

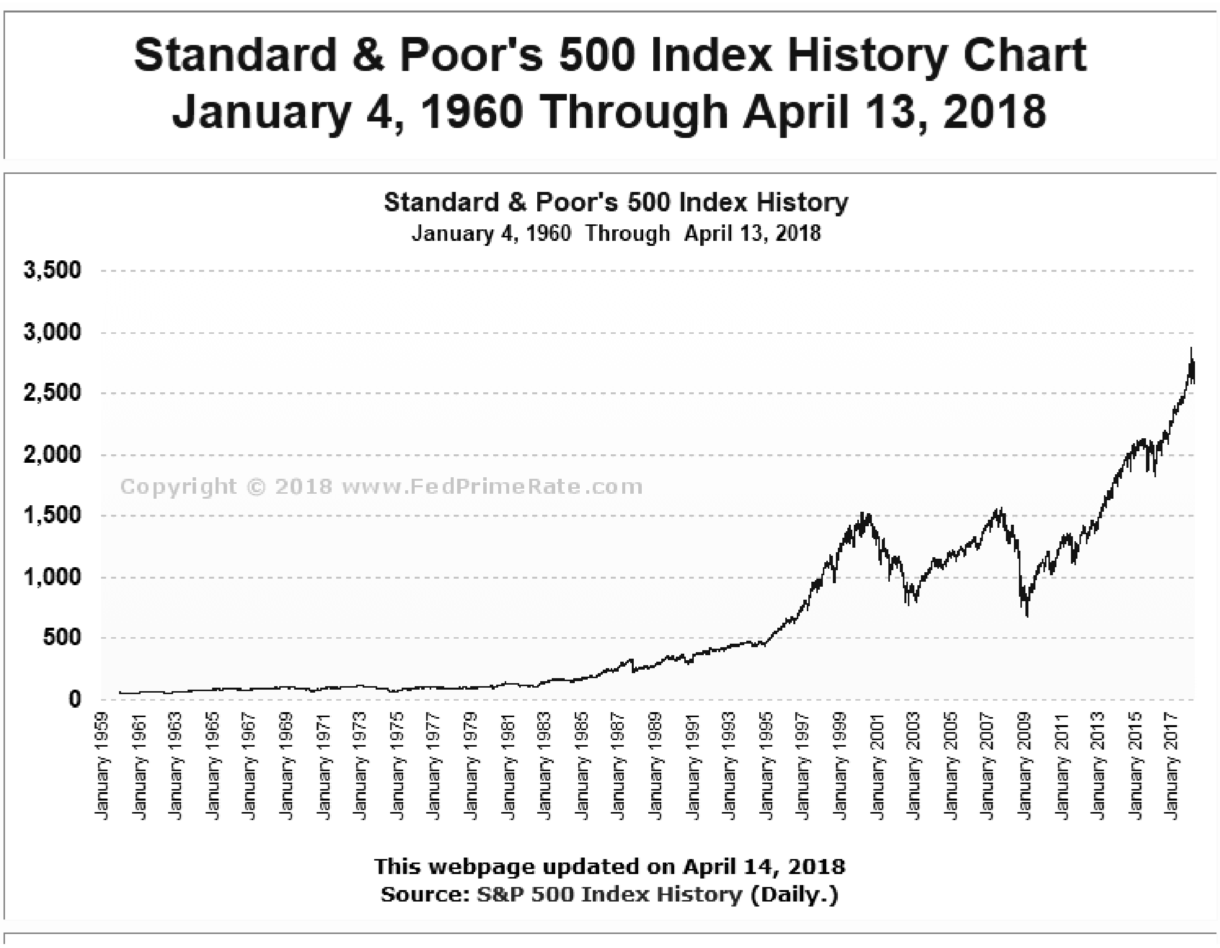
BOB'S AGE	20			40			65
Retirement Account	Annual Invest	Years	Rate	Balance	Years	Rate	Balance
	$4,000	20	10%	$229,000	25	10%	$2,480,000
GARY'S AGE	**40**						**65**
Retirement Account	Annual Invest				Years	Rate	Balance
	$4,000				25	10%	$393,000
						Difference	$2,087,000

Most people do not understand the benefits of compounding because we're not wired to think in non-linear ways. But now you know the difference and can make time and compounding work to your great advantage. The compound effect is the operating system that has been running your life whether you know it or not. Small choices + consistency + time = significant results.

The S&P 500 Investing Paradigm

> The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. —S&P Dow Jones

Over the decades, it has become accepted wisdom that placing a significant portion of your assets in an S&P 500 Index fund is a guaranteed wealth-building strategy. This passive investing approach—where a fund simply tracks an index and no professional manager actively picks its holdings—has continued growing in popularity. And for some good reasons: low fees, low taxes, minimal oversight. But today there are some important factors worth taking a closer look at: allocation percent, terminal and recurring horizons, and personal management policy.



The S&P 500 is one of the most commonly followed equity indices. It's considered one of the best representations of the US stock market and a bellwether for the US economy.

Notice that if you had fully committed your allocation during 2001 with a ten-year horizon in mind, you would have been sorely disappointed in 2011. But if your horizon was twenty years, by 2017 you would be quite happy.

With the dramatic rise in the S&P 500 since 2009, does investing today make sense? Probably yes, if your terminal horizon is twenty or forty years. Maybe not yet if it's ten to fifteen years. If a serious market correction is coming, and it is, does it make more sense to carefully buy or scale in on corrections, or even, perhaps, if there is one deep correction?

It’s safe to say, though TV pundits will never admit it, that a number of markets are signaling long overdue, major corrections on the horizon. Maybe the most broadly anticipated corrections ever. Some professionals believe that there should be more concern about current S&P 500 wisdom and prospects. Vincent Barbara, a certified financial planner and managing partner of Newbridge Wealth Management, has said:

> It's incredibly important to understand that passive investing is not less risky and, in fact, can be more risky. I've heard more and more people [mistakenly] think passive investing is the opposite of aggressive investing. That's scary.

Not scary. Passive investing can be as aggressive or conservative as you want. You set the horizons and return requirements. You set the expectations.

Simon Black, founder and CEO of Sovereign Man Confidential says:

> Passive investing is one of the most popular strategies in the world today—don’t think about anything, don’t do any research, simply “buy the index.” This can be a much more dangerous (and silly) investment strategy than most people realize.

Yes, it can be *dangerous* and *silly* depending on how wisely you construct and manage your Asset Allocation Plan. That means doing the research that Black notes most people neglect to do.

In an article titled “Confronting America’s Myths,” M.N. Gordon adds:

> Confronting America’s Myths: The legend that more money means more wealth….The legend that everyone can get rich buying and holding S&P 500 Index funds. And so on, and so forth.

No, not *everyone* can get rich in any investment paradigm. So?

A Current Illustration

In a January 2018 article for *Fortune*, Mark Kolakowski wrote:

> Meanwhile, for the growing number of investors who have made index funds a significant part of their portfolios "a heavy drag on their future returns" may result from “the tech explosion,” Fortune warns. As tech stocks have soared in price, outpacing the broader market, they have become a larger percentage of both the major market indices.

The FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google) currently account for 13 percent of the total capitalization of the S&P 500 Index. Since its inception, the average S&P

P/E ratio has been approximately 15, and 2017 ended at a P/E of 23. Amazon and Netflix P/E ratios are stratospheric at 333 and 251 respectively. Google is at a "modest" 32.

Kevin McDevitt, a senior research analyst at Morningstar Inc., expressed similar concerns. "Seriously consider rebalancing into other funds with less tech exposure if you have a fund with a large tech overweight," he told *Barron's*.

While continually picking entry and exit points is a bad idea, it makes sense under today's historic economic cycles to be keenly aware of your horizons and plan to fully fund your target allocation in stages or at potentially advantageous points.

Unfortunately, the fate of the FAANGs isn't the only factor that *could* impact the S&P 500 in the relative near term. By all measures, today's stock market is untethered to traditional fundamentals and overly bloated by the Federal Reserve's rate and printing policies—and likely to cut loose and land somewhere else.

Therefore, you may find it advantageous to occasionally engage in short-term, tactical deviations from the allocation mix in order to capitalize on unusual or exceptional investment opportunities. This flexibility adds a market timing component to the portfolio, allowing you to participate in unusual economic conditions that are more favorable for one asset class than others. This strategy demands some discipline as you must first be able to recognize when short-term opportunities have run their course and then rebalance your portfolio back to your original returns and horizons.

> "Warren Buffett is a big proponent of index investing. In 2008, to prove the superiority of passive management, Buffett challenged the hedge fund industry—the quintessential active investors—to a ten-year contest. He put a million dollars in Vanguard's S&P 500 Admiral Fund (the first index fund available to retail investors), while Protégé Partners LLC, the hedge fund that took him up on his challenge, picked five fund-of-funds. Though the bet is still running as of 2016, Buffett's passive strategy has proven its worth thus far. By the end of 2015, Buffett's passive bet had generated a 66 percent cumulative return compared to Protégé's 22 percent." —Investopedia

The takeaway is: know your asset classes, investment return objectives, terminal horizons, and market cycles before committing a full allocation to your index fund. Know your criteria, commitment, and policies.

The Value Investing Paradigm

> "Value investing is an investment strategy where stocks are selected that trade for less than their intrinsic values. Value investors actively seek stocks they believe the market has undervalued. Investors who use this strategy believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with a company's long-term fundamentals, giving an opportunity to profit when the price is deflated." —Investopedia

Value investing is obviously not generally a passive income practice unless you invest, for example, in the Vanguard or the S&P 500 value indices. However, in all disciplines there are a few independent investing practitioners who consistently stand out and are worth knowing something about. One example is Tim Staermose, Sovereign Man's chief investment officer and owner of the investment service The 4th Pillar. Here, you can learn about successful practices and strategies in equity research and emerging market opportunities—value investing. With time and commitment, value investing can be highly rewarding, but again, is by no means a passive investment undertaking.

Bond Indexes

To get higher returns from bonds, you have to accept more risk, either interest rate risk or credit risk. When interest rates rise, bond prices fall. When interest rates fall, bond prices rise. The length of maturity is generally considered one of the best ways to estimate the risk of loss from interest rate fluctuations for individual bonds as well as bond funds because events and circumstances further out are less certain.

The price of an investment-grade bond typically doesn't deviate much from the original price. That means the most important factor in its market value, and thus its weighting in an index fund, is the size of a particular bond issue. And the biggest factor you have to consider here is the enormous amount of government debt typically held in major funds.

For example, when you buy the Vanguard Total Bond Market Index Fund or a similar fund sponsored by another firm, you're likely investing up to 70 percent of your money in government debt. That's a giant allocation with huge exposure that is certainly not in keeping with prudent practices. Even Vanguard founder Jack Bogle, who practically invented index funds, says "70 percent in US government bonds is too much. I would say by about 90 percent."

If you are firmly committed to acquiring bonds—buying debt—you may want to focus on funds that own high-quality corporate bonds. For example, Vanguard Intermediate-Term Investment-Grade Fund has only about 6 percent of its assets in government bonds. Almost all the rest is invested in high-quality corporate bonds. There are other similar funds available.

Considerations & Takeaways

- Be a passive market investor and outperform 96 percent of those who manage for a fee.
- Every dollar in fees takes away additional compounded earnings over time.
- Faithfully follow your asset allocation strategy, and let the passage of time work for you.
- The two biggest enemies of stock market wealth are investment fees and human emotions.

I believe that anyone can become prosperous and join the ranks of the wealthiest 2 percent in the world, who are enjoying life on their own terms through a well-conceived and faithfully followed asset allocation strategy, select asset classes, and the passage of time.

You can review investment strategy ideas and practices at Lesson Resources > Passive Income and Asset Allocation. Additionally, you can practice "what if" scenarios with planning tools (Compounding Calculator and Portfolio Estimator) that readily bring into focus the power of compounding and the consequences of asset allocation.

Private Equity

> "Private equity is capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity." —Investopedia

More millionaires and billionaires will be created by people who invest in private equity in the next ten years than in the entire history of mankind. Private equity has been the top-performing asset class for the super wealthy since 1970. Being an early investor in a great private-equity company that goes public with an initial public offering (IPO) can create a lifetime return from just one investment. For example, previous pre-IPOs include companies such as Google, Facebook, LinkedIn, Spotify, Airbnb, Pinterest, Dropbox, Palantir, and Bloom Energy, just to name a few. There are private equity companies that have experienced returns of one hundred to one or more on investment. In fact, one investor received a $75 million return on a $35,000 investment when Facebook went public.

Add Balance to the Portfolio

The fundamental reason for investing in private equity is to improve the risk and reward characteristics of your investment portfolio. Investing in private equity offers the opportunity to generate higher absolute returns while improving portfolio diversification. Private equity investments are often allocated as seed, startup, expansion, replacement capital, or buyout.

Only a small percentage of your portfolio should be invested, not gambled, in high-risk, huge-reward opportunities. To reduce risk and holding period, you can invest in late-stage private equity companies well positioned for an IPO or merger/acquisition within one to two years. Select a diversified, early-stage pre-IPO fund with a highly successful management team.

Run Only with Seasoned Experts

Proven pre-IPO investment experts have years of successful experience to help you select the most promising companies for your investment portfolio. Targeted companies are generally in favorable sectors including Big Data, artificial and augmented intelligence, robotics, enterprise analytics, cloud and data infrastructure, biogenetics, social media, and e-commerce, among others. Before you consider investing in a company, make sure it presents a defensible business model, demonstrates significant competitive advantages that it can secure profitably, and possesses growth opportunities well beyond the targeted IPO liquidity event time horizon.

Premier private equity companies maintain a strong core management team that is experienced in both private and public company operations and that has direct prior experience in ushering companies into successful IPO exits. Substantial participation from institutional investors at major financial institutions and prominent private equity investors is also viewed as a favorable indicator of what could be multiple returns on investment. For example, investors have made up to one hundred times or more on their money on some of the fastest-growing companies in the world during the past few years, including GoPro, Airbnb, Uber, Twitter, and others.

Small Investors (Finally) Welcome

Since 1934, the Securities and Exchange Commission (SEC) restricted private investing to those with more than $1 million in net worth or those who have made over $200,000 a year for the past two years. On May 16, 2016, Title III of the Jumpstart Our Business Startups (JOBS) Act, known as Regulation Crowdfunding, now gives everyone, not just high-net-worth people, the opportunity to invest in private, early-stage companies. In fact, investors can now participate with as little as a $50- or $100-investment in pre-IPO companies.

You should look for companies that have the potential for at least 10:1 return on investment or more within reasonable time. Not all small companies become big companies, but the ones that do have three common attributes:

1. The ability to expand into national and/or international markets.
2. Strong annual returns of 20 to 30 percent on capital invested in the business.
3. The ability to reinvest profits and earn high returns again and again. If you can earn 30 percent on your equity and reinvest your profits to earn 30 percent again, here is how your wealth compounds:
    - Year One - 1.3 times
    - Year Five - 3.7 times
    - Year Ten - 13.8 times
    - Year Eighteen - 100+ times

After ten years, you have almost fourteen times what you started with. After eighteen years, you will have 100:1—a 100-bagger! Of course, outliers have and can deliver more than a one hundred to one return much sooner. Smart startup companies today can scale up hundreds of times faster than they could just a few years ago. There has never been a better time to invest wisely and diligently.

The Technology Paradigm

In 2010, a company called Nest found an underserved niche market in a potentially new industry. Nest developed a more beautifully designed and efficient thermostat. Three years later, Nest was acquired by Google for $3.2 billion in cash, creating a new wave of pre-IPO millionaires and multi-millionaires from that one investment.

What makes Nest so important is that it was a significant development in what we now know is a new megatrend revolution: the Internet of Things. Trillions of dollars in new wealth have been created on the Internet, and more recently on mobile devices. As more objects in our life become smart and communicate online, there will be many new, potentially valuable opportunities for early investors who have access to these disruptive technologies.

Considerations & Takeaways

- Does the company operate within a strong, growing industry?
- Does the company operate in an underserved niche market?
- Is the new company copying an already successful company that serves the same niche market?
- Has the private equity advisor and/or the company executives taken other companies from startups to substantial and successful businesses?

There are 27 million companies in the US, and less than 1 percent of them are listed on public exchanges. As a result, private equity firms have access to a huge pool of potential investments that you will miss out on if you restrict yourself only to public companies.

After you do some serious homework, only invest alongside proven domain experts.

Lesson Resources > Private Equity

Natural Resources

Natural resources are derived from the environment. Some are essential to survival, while others merely satisfy societal wants. Every man-made product in an economy is composed of natural resources to some degree. The exportation of natural resources is the basis for many economies—and wars! Natural resources can be classified based on their origins:

- Biotic natural resources come from living and organic material, such as forests and animals, and include the materials that can be obtained from them. Biotic natural resources also include fossil fuels such as coal and petroleum, which are formed from organic matter that has decayed.

- Abiotic natural resources come from non-living and non-organic material. Examples of these resources include land, fresh water, and metal ores such as gold, iron, copper, and silver.

Our portfolio interest is in rational speculating, not gambling, on real (commodity) money resources, such as gold and silver junior mining shares.

Speculation versus Gambling

Speculation is the opposite of gambling. It's about capitalizing on supply and demand markets that are seriously out of balance. It's about syncing up with experts who live and breathe niche speculative markets and allocating a small percentage of your portfolio to investments that are reasonably likely to generate potential returns of at least ten to twenty times the investment.

Speculation involves calculating risk and conducting in-depth research before entering a financial transaction. Conversely, gambling involves a game of chance where the odds are always stacked against you. That's why it's called gambling.

Junior Resource Mining

Stocks in the junior mining sector are the most explosive on earth. A small investment in the right company in this sector can make you very rich. Louis James, senior investment strategist at Casey Research and senior editor of the highly acclaimed *International Speculator*, says:

> What makes the junior resource market special is that it is one of the only public markets where you can get in at the earliest stages…when the upside is truly life-changing. "Juniors" explore for the next big resource deposit. They find the raw materials that keep our world running—like oil, gold, silver, uranium, copper, nickel, and natural gas.
>
> Large deposits of these raw materials are some of the most valuable assets on earth. There's a reason wars are fought over oil fields and other natural resource deposits. And when a small company finds one of these huge deposits, its stock price can rocket up by 10 to 1, 20 to 1, or even 50 to 1. But to collect these gains, you have to invest like a venture capitalist.

Considerations & Takeaways

- Clearly understand the difference between rational speculation and gambling.
- First acquire two basic natural resource shares—gold and silver (commodity money).
- Invest only with seasoned superstars in the natural resources sector.
- Don't even think about becoming an expert; you don't have the background or time.
- Invest only a modest percent of your portfolio—only what you can safely lose.

Being well connected is just as important in junior resource investing as it is in venture capital. The junior resource market is all about people. You need to know the right ones. Louis James says: There's a saying in the mining industry: in the room, in the deal.

Get to know the researchers, experts, investors, and authors who have decades-long, successful experience in the room. Lesson Resources > Natural Resources

Real Estate

There are many different ways to make outstanding real estate investment profits both as an active investor and as a passive investor. Real estate is one of the oldest and most popular asset classes and can be a significant counterbalance to the volatility of other portfolio assets such as stocks, bonds, and other securities. In real estate, any individual with an entrepreneurial spirit can start with a little capital and eventually make a fortune.

The four primary wealth generators at play are cash flow, appreciation, loan pay-down, and tax benefits. Not all properties or ownership vehicles realize all four benefits, but some can, depending on strategy. Many fortunes have been made by specializing in a particular market niche. In fact, millions of people have become millionaires through real estate investments.

These wealth generators basically apply to your personally managed properties, outsourced managed properties, and index fund properties.

- **Cash Flow**: This is the income you'll get to keep each month or year that you own income property. Cash flow can be deceptive because it fluctuates with vacancy factors, capital expenditures, utility rates, management terms, etc.

- **Appreciation**: While appreciation is not always guaranteed, historically, real estate has always increased over time in America, averaging 3 percent per year over the past century. Another type of appreciation that can come into play is known as "forced appreciation," which is the concept of increasing the value by physically improving the property.

- **Loan Pay-down**: Over time, your tenant is essentially paying the loan down for you and helping you build wealth automatically. To make this concept clearer, pretend for a moment that you own a property that you bought for $1 million with a mortgage of $800,000. It makes $0 in cash flow, allowing you to break even, and never climbs in value. However, after that thirty-year mortgage is paid off, you'll now have a property worth $1,000,000 that you didn't actually save for. Your tenant paid it off the loan pay-down.

- **Tax Benefits**: The final wealth generator from real estate is the tax benefits associated with owning property in the United States. The US government likes real estate investors and uses the tax system to encourage the purchase and lease of properties. From extra tax write-offs and dropping the lack of self-employment tax to the 1031 exchange and more, real estate investors can pay significantly less tax than other business owners and use the extra cash to buy more properties or pay off the loan faster—helping to build greater wealth.

Basic Types of Property

- **Residential**: These are properties, such as houses or apartments, where individuals or families live. Sometimes, real estate investments of this type have a service business component, such as assisted living facilities for seniors or full-service buildings for tenants who want a luxury experience. Leases usually run for twelve months, give or take six months on either side, leading to a much more rapid adjustment to market conditions than other types of real estate investments.

- **Commercial**: Commercial real estate investments largely consist of office buildings. These leases can be locked in for many years, resulting in a double-edged sword. When a commercial real estate investment is fully leased with long-term tenants who have agreed to high-priced lease rates, the cash flow continues even if the lease rates on comparable properties fall (provided the tenant doesn't go bankrupt). On the other hand, the opposite is also true—you could find yourself earning significantly below market lease rates on an office building because you signed a long-term lease before lease rates increased.

- **Industrial**: Properties that fall under the industrial real estate umbrella can include warehouses and distribution centers, storage units, manufacturing facilities, and assembly plants.

- **Retail**: Some investors want to own properties such as shopping centers, strip malls, or traditional malls. Tenants can include retail shops, hair salons, restaurants, and similar enterprises. In some cases, rental rates include a percentage of a store's retail sales to create an incentive for the landlord to do as much as he, she, or it can to make the retail property attractive to shoppers.

- **Mixed-use**: This is a catch-all category for when an investor develops or acquires a property that includes multiple types of the aforementioned real estate investments. For example, you might build a multi-story building that has retail and restaurants on the ground floor, office space on the next few floors, and residential apartments on the remaining floors.

- **Land**: How can one capitalize on the increased consumption of protein and demand for food globally? An investment in farmland will provide a steady stream of income and capital gains due to the increasing global demand for agricultural commodities and the limited supply of arable land.

Real Estate Investment Vehicles

Titled Ownership

First, you should almost never own investment real estate in your own name, primarily because of personal asset protection. In the event of a lawsuit or catastrophic event, you need the ability to put the entity into bankruptcy without affecting you or your other assets. The most common workaround is the use of a limited liability company or LLC. This is a relatively inexpensive vehicle to form; however, you should always create an LLC with the advice of your tax attorney and accountant. This simple measure can save you enormous grief further down the road.

The investment property you select will ideally possess these five characteristics:

- It will be in an excellent location for long-term appreciation.
- It will leverage financing to reduce the cash down payment, and the rental income will support all property expenses.
- It will be purchased at a favorable discount in comparison to its appraised value in order to secure a built-in profit.
- It can be sold with proper marketing at a gain or break even in the event circumstances change overnight.
- It has excellent “absentee ownership” management available if necessary or required.

Real Estate Investment Trust

A real estate investment trust (REIT) is created when a corporation or trust uses investor money to purchase and operate income properties. REITs are bought and sold on the major exchanges, just like any other stock. A REIT must pay out 90 percent of its taxable profits in the form of dividends to keep its status as an REIT. By doing this, REITs avoid paying corporate income tax, whereas a regular company would be taxed on its profits and then have to decide whether or not to distribute its after-tax profits as dividends.

REITs allow investors into non-residential investments such as malls or office buildings and are highly liquid. In other words, you won't need a realtor to help you cash out your investment.

Real Estate Limited Partnership

A real estate limited partnership (RELP) is similar to a real estate investment group. It is an entity formed to purchase and hold a portfolio of properties or sometimes just one property; only it is in existence for a finite number of years. An experienced property manager or real estate development firm serves as the general partner. Outside investors are then sought to provide financing for the real estate project in exchange for a share of ownership as limited partners. They may receive periodic distributions from income generated by the RELP's properties, but the real payoff comes when the properties are sold—hopefully at a sizeable profit—and the RELP dissolves down the road.

Real Estate Mutual Funds

Real estate mutual funds invest primarily in REITs and real estate operating companies. They provide the ability to gain diversified exposure to real estate with a relatively small amount of capital. Depending on their strategy and diversification goals, they provide investors with much broader asset selection than can be achieved in buying individual REIT stocks, along with the possibility of fewer transaction costs and commissions. More speculative investors can invest in a family of real estate mutual funds, tactically overweighting certain property types or regions to maximize return.

The Power of Leverage

Investing in real estate gives an investor a tool that is not available to all stock market investors: leverage. If you want to buy a stock, you have to pay the full value of the stock at the time you place the buy order—unless you buy on margin. And even then, the percentage you can borrow is still much less than with real estate, thanks to that wondrous financing method, the mortgage.

Most conventional mortgages require a 20 percent down payment. However, depending on where you live, you might find a mortgage that requires as little as 5 percent. This means that you can control the whole property and the equity it holds by only paying a fraction of the total value. Of course, the size of your mortgage affects the amount of ownership you actually have in the property, but you control it the minute the papers are signed.

This is what emboldens real estate flippers and landlords alike. They can take out a second mortgage on their homes and put down payments on two or three other properties. Whether they rent the properties out so that tenants pay the mortgage or they wait for an opportunity to sell for a profit, they control the assets, despite having only paid for a small part of the total value.

Caution: Real Estate Lacks Liquidity

The main drawback of investing in real estate is illiquidity or the relative difficulty in converting an asset into cash. Unlike a stock or bond transaction, which can be completed in seconds, a real estate transaction can take months to close. Even with the help of a broker, simply finding the right counterparty can be a few weeks of work. REITs and real estate mutual funds offer better liquidity and market pricing but come at the price of higher volatility and lower diversification benefits. They have a much higher correlation to the overall stock market than direct real estate investments.

Considerations & Takeaways

- Any individual with an entrepreneurial spirit can start with a little capital and eventually make a fortune.
- Historically, real estate is one of the most reliable investments.
- Most, if not all, wealthy individuals have some kind of investment in real estate.
- Not only can real estate provide good income, but it also generates income that naturally keeps pace with inflation.
- You can use leverage and tax law to enhance bottom line profits.

Real estate fortunes will continue to be made by people who take a long-term investment approach. Moreover, real estate in some form should be a part of everyone's asset allocation plan to help maximize returns and minimize risk.

You can learn the fundamentals of every type of real estate investment by reviewing what top experts and mentors teach and practice at Lesson Resources > Real Estate

Notes on Select Asset Classes

Commodities

Fortunes have been made investing in commodities such as precious and nonferrous metals, agriculture and farming, energy, and others. It takes expert knowledge and skills to invest in commodities. However, most people lose money investing in commodities because it is very speculative, and only a few proven experts get trades mostly right, but some few do. A thousand changing conditions can wipe out profits, and in many cases, all of your invested capital.

Commodities can be a small part of a diversified asset allocation plan for most investors. But invest only with seasoned experts.

Collectibles

Collectibles, such as art, coins, and stamps, are more of a hobby than an investment vehicle for most people. If there is such a thing as a golden rule for collectibles, it is this: buy what you love— if you're lucky, some of it will also be valuable. There are rare coins, stamps, and paintings by masters that have created millions and billions of dollars of wealth. However, collectibles usually have low liquidity options when you want or need to sell them, and buyers will seek deep discounts in such situations. Collectibles do, however, provide great enjoyment to the people who own them.

There is a value to the happiness a painting or rare piece of furniture brings you, but whatever you buy, you should be fine with hanging on to it (or hanging it on the wall) for a while.

Derivatives

A derivative is a contract that derives its value from the performance of an underlying entity, such as an asset, index, or interest rate. Derivatives can be used for a number of purposes, including insuring against price movements (hedging), increasing exposure to price movements for speculation, or getting access to otherwise hard-to-trade assets or markets. Some of the more common derivatives include forwards, futures, options, swaps, and variations of these, such as synthetic collateralized debt obligations and credit default swaps. Derivatives are complex and should be left strictly to professionals and gamblers.

Money

In prevailing economics, cash is money in the physical form of currency, such as banknotes and coins; cash also includes deposit accounts and money market funds. Currency is any form of money in actual broad use as a medium of exchange, especially paper money and coins in circulation. There are two basic types of currency: paper currency, which is backed by nothing tangible, and has value only because the government says it has value, and commodity currency, which has had intrinsic value and universal recognition for thousands of years.

Commodity currency, or hard money, is mainly gold and silver bullion and coins. A government that uses a hard money policy backs the value of the currency it uses with a hard, tangible, and lasting material that will retain its relative value over time. However, today all governments have decoupled their currency from any tangible backing, enabling the creation of money from virtually nothing backed solely by the faith and credit of even insolvent governments. Their fiat currencies, which have been declared legal tender by government decree, are heading inexorably toward worthlessness, as have all fiat currencies throughout history.

For example, the Bureau of Labor Statistics claims that in 2012, $23.27 was equivalent to $1 in 1913. Inflation, standard of living, and relative currency values can all be used to illustrate that the dollar saved in 1913 is now only worth a fraction of its original value. In other words, paper money backed by nothing tangible always eventually reaches its intrinsic worth – pieces of paper.

Fiat money is also known as forced paper money, debt money, irredeemable money, or managed money. Commodity money is also known as metallic money, full-bodied money, precious metal money, as well as hard money. Commodity money can be exchanged on-demand for a specific commodity.

It's important to note that cash in the bank is not money—at least not yours. It is legally a loan to the bank and subject to all the potential consequences of an insolvent borrower. In the US, the loan to the bank is guaranteed up to statutory limits by the Federal Deposit Insurance Corporation (FDIC), but the solvency of the FDIC needs to be seriously considered.

How Did Money Come About?

Money, like markets and language, has evolved over thousands of years of civilization. Commodity money, whose value comes from the commodity of which it is made, has survived through millennia. Murray Rothbard, the legendary economist, wrote:

> It is clear that in every society, the most marketable goods will be gradually selected as the media for exchange. As they are more and more selected as media, the demand for them increases because of this use, and so they become even more marketable. The result is a reinforcing spiral: more marketability causes wider use as a medium which causes more marketability, etc.

> Eventually, one or two commodities are used as general media—in almost all exchanges—and these are called money. Since this general medium of exchange emerges from among a potentially wide range of commodities, money is, as such, a commodity.

Commodity money is tangible, unencumbered, and never worth zero. Keep in mind, Gold Is the Only Money That Can't Be Debased.

Money is whatever civilizations determine is the most marketable commodity. Instead of looking at the price of gold in terms of dollars, look at everything, including dollars, as priced in gold. All values in terms of money are relative to the value of gold because gold is real money and has been the established standard for millennia. Again, civilization chooses and always falls back on gold.

Nearly 2,500 years ago Aristotle described four characteristics of universal value, or what we call money. The four absolutes of money are:

1. Durable—the medium of exchange must not weather, fall apart, or become unusable. It must be able to stand the test of time.
2. Portable—it must be easily moveable and hold a large amount of universal value relative to its size.
3. Divisible—it should be relatively easy to separate and put back together without ruining its basic characteristics.
4. Intrinsically valuable—it should be valuable in and of itself, and its value should be totally independent of any other object. Essentially, the item must be rare.

Pretty clear. Yet neither governments nor politicians want a gold or silver standard. This is because linking paper currency to a precious metal limits their ability to create money at will. Hard money is not subject to governmental control because it has a value of itself which is independent of its monetary use. Precious metals have always been used in jewelry and decoration and have many modern (some critical) uses such as the manufacture of electronic devices, computers, medicine, and aerospace.

How might the fed-government's role in creating money out of thin air and manipulating interest rates play out? Ergon van Greyerz, Managing Partner, Matterhorn Asset Management, has some sobering, if not apocalyptic, assumptions and predictions based on data and trends. The US Is Dead Broke

Hard money also puts a limit on military spending, welfare, and pet projects. The real price of free money is inflation and much worse. Gold prices simply reflect the debasement of paper currencies. Real money—gold and silver—survives market crashes and depressions because it represents durable, intrinsic wealth.

Remember, Gold Is Money

At the 2018 Berkshire Hathaway annual shareholders meeting, legendary investor, Warren Buffett, addressed 42,000 attending shareholders. In his introductory remarks, Buffett pointed out how important the long-term view is to achieving investment success and that investments in *productive assets* such as stocks can considerably gain in value over time. He went on to contrast stock returns (productive assets) with gold returns. Warren finds gold unproductive. But gold can be an asset, a commodity, or money. If you're using gold as an asset or commodity, then stock returns versus gold returns over time *have been* multiples higher. It's a sensible comparison.

But if you're using gold for *money* you view things quite differently. Comparing the performance of stocks and gold misses the point. Here are some of author / economist Thorsten Polleit's thoughts regarding Buffett's remarks to the shareholders:

> The Greenback's purchasing power has *dropp*ed by 84 percent from January 1972 to March 2018. Even taking a short-term interest rate into account, the US dollar's purchasing power would show an increase of no more than 47 percent. The *purchasing power* of gold, in contrast, has grown by 394 percent.
>
> Unlike fiat money, gold cannot be devalued by central bank monetary policy. It is immune against the printing of ever greater amounts of money. Furthermore, gold does not carry a risk of default, or a counterparty risk: Bank deposits and short-term debt securities may be destroyed by bankruptcies or debt relief. However, none of this applies to gold: its market value cannot drop to zero.

The great economist Ludwig von Mises (1881-1973) said in 1940: "The gold currency has been criticized for various reasons; it has been reproached for not being perfect. But nobody is in a position to tell us how something more satisfactory could be put in place of the gold currency."

In 1971 Nixon abandoned the gold backing of the dollar. Since then, US fiat currency has lost 97 percent of its purchasing power due to the unbridled ability of the government and Federal Reserve to create money out of thin air. Few realize that the cost of housing, food, and transportation is increasing faster than wages because more money out of thin air is being created.

Egon von Greyerz reminds us that "Gold is not an investment, it is the only money that has ever survived throughout history. So anyone who just buys gold to make speculative profits does not understand the significance of gold. For 5000 years gold has been a medium of exchange and a store of value. These attributes are unlikely to change in the foreseeable future as it is a tradition based on sound values and principles which has lasted for millennia."

Here is a clear, insightful read: The New Case for Gold by Jim Rickards, editor of Strategic Intelligence. And former Congressman, Ron Paul, lays out a compelling case that is creating demand to End the Fed. As Doug Casey, founder of Casey Research, points out: The central bank and income tax are not part of the cosmic firmament. These schemes are barely 100 years old.

The question is, has the Fed robbed the future? If you want to see the big picture, learn how the Fed was created by international bankers, is not a government entity, and see who actually benefits from printing paper money that is not backed by anything, here is a great read: *The Creature from Jekyll Island: A Second Look at the Federal Reserve* by G. Edward Griffin.

Beware of Defined Benefit Plans

If you're depending on Social Security or a traditional pension plan to help you pay for retirement, chances are you'll never get there. Don't rely solely on government regulated savings and income schemes, also known as defined benefit plans, if you want to avoid outliving your money. These plans aren't asset classes, and for the most part, they are very shaky, third-party liabilities. As such, the flawed economic models of each plan are acknowledged, even by the government, to be in poor to hopeless shape. And have you noticed that, due to legislation and regulation, nearly 100 percent of all retirement money in the US is channeled through Wall Street?

Social Security

According to a Gallup poll from May 2018, 58 percent of U.S. retirees said that they rely on Social Security as their major source of income. They simply don't have enough of their own personal savings stashed away. Yet the Social Security Administration releases an annual report every summer describing the program's woeful financial condition. They clearly state: "Projected [costs] will exceed total income…starting in 2020. Trust fund reserves decline until reserves become depleted in 2034."

Here's the problem: There are no longer enough workers paying into Social Security to cover the growing number of retirees. The 'worker-to-retiree ratio' requires a certain number of workers paying into the system for every retiree receiving benefits.

In 1960 the ratio in the US was 5.1 workers paying into the system for each retiree receiving benefits. In 2000 the ratio was just 3.4 workers per retiree. Today, it's approximately 2.6 workers per retiree which simply isn't sufficient to pay benefits. There are a couple of solutions: greatly increase worker Social Security taxes or slash retiree benefits – likely both.

In the case of Medicare, the Board of Trustees projects its largest fund will be fully depleted by 2026, just eight years away. So, if you're planning on being retired at any point past 2034, the government is saying that it won't be able to pay you your promised benefits. And the Congressional Budget Office, a non-partisan federal agency, projects Social Security fund insolvency by 2029.

To top it all off, the Treasury Department's annual report admits that the government is essentially insolvent to the tune of $20.4 trillion.

Pension Funds

According to a 2016 report from Citibank entitled "The Coming Pension Crisis," the thirty-five developed nations that comprise the Organization for Economic Co-operation and Development (OECD), including the US, Canada, Japan, and most European countries, have pension shortfalls totaling $78 trillion. To put this in context, $78 trillion is greater than the sum worth of the entire world economy. And credit rating agency Moody's estimates US state, federal, and local government pensions are $7 trillion short in funding—in other words, terminally insolvent.

Today, the nation's 1,400 corporate pension plans are facing a $553 billion shortfall. And, according to Boston College, about 25% will likely go broke in the next decade. Perhaps counting on Social Security or pensions to ensure you don't outlive your money is a bad bet.

Retirement Accounts

If you own a small business, however, you can establish a simplified employee pension plan (SEP) IRA and contribute funds for your retirement. A SEP IRA is a traditional IRA for self-employed individuals or small business owners. (SEP stands for Simplified Employee Pension.) Any business owner with one or more employees or anyone with freelance income can open a SEP IRA.

Today, IRAs are the largest source of retirement savings in the country, totaling $7.8 trillion in assets as of the third quarter of 2016, outpacing 401(k)s and other employer-sponsored plans. But most plans are confined to your backyard. If you have a US retirement plan, you're allowed to invest in government bonds and the US stock market. But what if US stocks are overvalued? What if you don't want to loan money to the government? With a more robust structure like a self-directed IRA or solo 401(k), you are able to open up an entire universe of new investment opportunities: private investments, cash flowing royalties, cryptocurrencies, high interest foreign bank accounts, and safe, secured lending opportunities. And these options allow you the chance to generate higher returns without the cost of paying some Wall Street firm to manage your account.

There are limitations, restrictions, and prohibitions that apply to these various plans, however, which means you should always seek expert advice and counsel in order to use them effectively and avoid the imposition of serious penalties.

Some great places to investigate your retirement account options and opportunities include The Entrust Group, Guidant Financial Group, and GoldStar Trust.

Note: *In the Resource Library, there are links to valuable resources and contact information that may be useful for further educating yourself and instituting action. There are no financial affiliations with any of the individuals or companies listed, nor any fee, commission, or other compensation arrangements for listings or sales, or for any arrangements you might make with them. It is my opinion that these independent experts are not only principled and accomplished, but they have proven to be among the best of the best in their chosen fields of expertise.*

15 minutes

Lesson III: Asset Allocation

60 minutes

Note to my son: *Asset allocation is the cornerstone lesson within this manuscript. Over time, no other set of financial decisions you make will impact where you end up in life more than how wisely you allocate your assets. Only a small percentage of people realize this, but the 2 percent who are financially independent do. This principle is true whether you start with wealth, inherit wealth, win wealth, or earn it the old-fashioned way. Pay attention to the simple math of compounding and wisely allocate your assets across your core asset classes with realistically defined goals and assumptions.*

Some Allocation Basics

Asset allocation is the Rosetta Stone of your whole investment program and the foundation of all wealth. It is an investment plan that balances risk and reward by apportioning your portfolio assets according to your goals, resources, risk tolerance, and asset horizons.

Each asset class has a different level of risk and return, so each will behave differently over time, thus dampening the overall highs and lows of the portfolio. It has been soundly proven that the selection of individual investments is secondary to the way you allocate those investments across asset classes. The bottom line is that asset allocation always determines where you end up financially. A successful, lifelong investment strategy depends on a prudent investment plan, full implementation of the plan, and discipline to follow the plan in good times and bad.

Allocation Objectives

The main goal of allocating your assets is to minimize risk in each asset class given a certain expected level of return or maximize return within an acceptable level of risk. Since different assets have different risks and market fluctuations, proper asset allocation insulates your entire portfolio from the emotional ups and downs of single assets or of one single class of assets.

So, at any given time, certain assets are outperforming other assets. Different assets have different return potential, and each carries its own level of risk. Certain assets appreciate against other depreciating assets, counterbalancing the highs and lows over time. *Asset allocation* takes a long-term approach to ensure that you will create wealth regardless of volatile market conditions and prevailing economic circumstances. A properly diversified asset allocation plan is your ultimate protection strategy.

Studies conducted by Brinson and Hood (1986) and Beebower, Wallick, et al. (2012) show that **asset allocation decisions were responsible for 88 percent of a diversified portfolio's return patterns over time**. In other words, the selection of individual securities is secondary to the way one allocates investments in stocks, bonds, real estate, precious metals, natural resources, private equity, and the like. Investment outcomes are largely determined by the long-term mixture of assets in a portfolio. This has been well documented in theory and in practice.

Market Cycles

> "Smart investors who recognize the different parts of a market cycle are more able to take advantage of them to profit. They are also less likely to get fooled into buying at the worst possible time." —Investopedia

Certain events and conditions can be foreseen or foretold, but not the timing or gyrations along the bumpy path to actualization. But you must maintain an understanding of possibilities and probabilities in light of current environments and trends.

Here are some comments and perspectives proffered by leading thinkers and researchers who follow market cycles and trends professionally.

Debt Jubilees

I didn't know what a debt jubilee was until I read some of what Porter Stansberry at Stansberry Research has to say. For some, his remarks might be a little unsettling. That's probably a good thing.

Stansberry observes that, "America has become a financial, cultural, and demographic pressure cooker." He goes on to explain that:

> A jubilee in the Jewish tradition was said to occur roughly every fifty years. It was a time for total forgiveness of debt, and the freeing of slaves. Pope Boniface VIII proclaimed the first Christian jubilee in 1300. And rulers throughout history have occasionally used a jubilee to reset the financial system—especially when the poorest citizens are threatening revolt.

Stansberry believes that an American debt jubilee is on the near horizon. And, of course, this would create a massive realignment of the entire financial system. He argues:

> If you open your eyes and look around at America today, you'll see that the march to America's next jubilee is already underway. What you're really seeing is the beginning of the jubilee. This jubilee will take place because many of the poorest members of our society have taken on trillions of dollars' worth of debt that simply can't be repaid. A debt jubilee is the only viable solution. It will be an act that wipes away trillions of debts for those who have gotten in way over their heads.

And what does Stansberry see as the potential consequences of this jubilee? He believes that millions of Americans with pensions, retirement accounts, and other types of savings will be wiped out.

Remember that nothing, not even free money, is free—everyone pays dearly for free money. And always keep in mind that storms present unique opportunities to preserve and grow wealth.

Melt Ups

A melt up and its consequences are a controversial topic. Some flatly deny melt ups as possible, including most pundits and TV experts. Dr. Steve Sjuggerud, however, makes a pretty compelling case that the conditions for an enormous melt up are evident, eminent, and not without precedent.

In his article "The Last Bull Market," Dr. Sjuggerud writes:

> You will NEVER see another opportunity like this again. Not in this lifetime. Our research indicates this bull market is not over. Right now, we're on the verge of a massive panic. But not the kind of panic most people expect.
>
> Long BEFORE stocks collapse we will witness an event that will send the Dow soaring past 40,000, 50,000—even higher...as people who have sat on the sidelines so far panic into the markets. You may disagree with our prediction. Or believe this sort of outcome is impossible. But as we'll see, it's all happened before. And not just once. It's happened dozens of times...in many countries around the globe.

So, how would a melt up affect your portfolio? It requires some thoughtful timing in order to capitalize on the shelf life of a trend. You can gain big advantages without frustrating your asset allocation strategy. For example, if your stock index allocation is 30 percent, watch it melt up, stay tuned, and do reallocations of those funds at optimal times—the key word being "optimal." The idea is to avoid liquidating other portfolio allocations in order to chase the market up. Stick with what you initially allocated. In the event of a melt up, watch and listen for optimal windows of time for reallocating or rebalancing your portfolio with the windfall profits—and perhaps take a vacation to Bimini.

Meltdowns

Harry S. Dent Jr. is an American who writes a financial newsletter, *Economy & Markets*. His 2009 book, *The Great Depression Ahead: How to Prosper in the Debt Crisis of 2010-2012*, appeared on *The New York Times* bestseller list. His latest book is *Zero Hour: Turn the Greatest Political and Financial Upheaval in Modern History to Your Advantage*. Dent believes that "the greatest social, economic, and political upheaval since the American Revolution is on our doorstep." He predicts that stocks could crash as much as 80 percent in the near term "as the world we know is turned upside down!"

Pretty scary stuff, and Dent is a smart, accomplished research specialist whose ideas are worth knowing about. But this scenario is not so scary if you have a properly balanced and maintained portfolio. It could be 80 percent melt up or 80 percent meltdown. Who knows? Not you, not me. And the last thing you want is to be racing up and down the markets, always chasing unknowable factors. Harry has been warning that gold will go down to $700 and below. Other pundits are certain gold will increase to $5,000, $10,000, or more. It might do both.

Know the Era You Are In

The Golden Age of Pericles, a pinnacle of civilization, an era studied and admired even today, lasted only 20 years! I've often thought about all the people then living who missed the big picture. They lived in a less informed world, and maybe they heard stories of the beyond. Nevertheless, they remained oblivious to the art and science of the day. And today the era in which we find ourselves?

Some contend that we are nearing the apex of a many decades long, if not 100 year economic cycle, even a several hundred year cycle; an era of massive expansion of science, arts, living standards, and goods—built with paper money and unsupportable. Why does this appear likely?

- The national debt presently sits at $21.7 trillion dollars. No one can actually get their mind around this unimaginable number. Productive Americans and their children and grandchildren are on the hook for it. But it will never get paid. Period. And likely the creditors will suffer defaults on their foolish investments made even after the debt total of $9 trillion in 2006 was warned to be a dangerous level.
- There is over $200 trillion of unfunded liabilities due over the foreseeable future (Social Security, Medicare, and Medicaid).
- Consumer debt is at a record high of $3.9 trillion. Household debt sands at $13.3 trillion. Auto loans ($1.22 trillion) and student debt ($1.34 trillion). Outstanding mortgages are at $8.88 trillion. What all these numbers have in common is they are all record highs.

Is this conversation meant to scare? Well, yes, in a way. But much more important is the message that one must be aware of market cycles, and we appear to be nearing the peak of the largest market bubbles in history—all while interest rates are being artificially kept at historical lows, a defining hallmark of our era. This simply can't last too much longer. The cleansing out of debt and malinvestments won't be pleasant but not the end of the world. Rather, the end of a major era and the beginning of another.

In the meantime, Chris Martenson at *Peak Prosperity* has some good advice:

> Bubbles are powerful social signaling devices. Staying out of them and out of harm's way is really difficult, especially as the party rages hardest right before its end. Don't get taken in. Don't be the "greatest fool" who capitulates and jumps in right before the crash.

Through your diligence, trust that your asset allocation plan and adjustment policies will revert to an increasing mean over time. In the shorter term, listen, learn, rebalance prudently, and enjoy the better aspects of this fading era.

The Holy Grail Paradigm

The Holy Grail Paradigm is an investment perspective that recognizes the intimate connections between key facets of your life: time, money, markets, mindset, lifestyle, and freedom. It is a conceptual framework for allocating and managing assets in such a way as to protect your portfolio and lifestyle under any market conditions. Each person's circumstances and objectives are personal and unique. To that end, the Holy Grail Paradigm provides a set of reality-based financial perspectives that help you recognize the opportunities in your life. It is also your tool set for testing the potential outcomes of your financial and policy assumptions. Your *Asset Allocation Plan* is the strategic model you employ for mastering your destiny.

A Portfolio Profile

Some investment portfolios are too conservative, some are too aggressive, some try to time the market and chase hot issues, and some are delegated unwisely to financial experts who charge unnecessarily high fees.

Your Asset Allocation Plan eliminates the pitfalls that prevent most people from successfully creating wealth, including:

- Prevents you from being too conservative or too aggressive.
- Requires no theoretical economic forecasting.
- Eliminates individual stock-picking risk.
- Eliminates risk of short-term inflation destroying your purchasing power long term.
- Is cost effective, which means you retain more compounding investment profits.
- Is simple with minimal market monitoring.
- Allows you to take 100 percent control of your financial destiny.

Asset allocation is likely the most important set of investment decisions you will ever make toward securing prosperity and freedom for yourself and your loved ones. Why? Again, asset allocation historically accounts for 88 percent of investment returns. That means the way you diversify your money among different asset classes is often more important than the individual investments themselves.

Let’s first look at our preferred asset classes in light of the following factors:

1. Investment Horizons
2. Risk Aversion
3. Asset Class Returns
4. Relationships Between Asset Classes

Taking the time to think these factors through and build a clear picture of the relationships among asset classes will provide you with a durable framework for your strategic planning.

1. Investment Horizons

Investment horizons are a matter of objectives, capacity, and preferences. When deciding what constitutes long-term versus short-term investment horizons, first look at the chart below. The chart illustrates the depth and length of recovery time for all major downturns since 1970 as reflected in the S&P 500 Index performance, which is a good approximation of the overall economy.

Major Market Pullbacks Since 1970

Begin Date	End Date	Max Decline	Recovery Time
Oct 2007	Mar 2013	49%	5 yrs 5 mos
Aug 2000	Sep 2007	54%	7 yrs 1 mon
Aug 1987	Jul 1989	30%	1 yr 11 mos
Dec 1972	Jul 1980	52%	7 yrs 6 mos
Nov 1968	Nov 1972	35%	4 yrs 0 mos

Source: Ibbotson SBBI 2015 Yearbook

Considering that December 1972 was the beginning of a 52 percent drop in the S&P 500, with a seven-and-a-half year stretch to regain its value, you might elect seven years as your line between short-term and long-term investment horizons. Short term is the period during which sufficient cash and equivalents, as well as short-term assets, are available for consumption or to capitalize on opportunities during recovery times back to a previous condition. Long term is the period of time you expect to reach your terminal portfolio value and where you want to be at certain periods along the way.

Alternatively, a shorter, less conservative time frame might make sense to you. Consider who and where you are now and where you intend to be in ten, thirty, or fifty years. What level of risk is acceptable in maintaining your comfort zone? These are factors that will enter into your portfolio strategy horizons.

In any event, you want to have available liquidity at least for the same period as your definition of short term. That is, cash and equivalents plus assets that can be readily converted to cash. You want your portfolio and your lifestyle disturbed as little as possible while markets are correcting. (So does your spouse and family.) For example, a severe hit of 30 to 50 percent to your stock index or business revenues might preclude or delay a planned income source during a down period. However, your portfolio is constructed with uncorrelated asset classes whereby cash and equivalents and additional cash, if needed, can be sourced from short-term assets without interfering with your long-term strategy. You can think of this as insurance for necessary consumption during a down period.

Horizon Examples

Investment horizons for various asset classes depend on personal objectives and circumstances. Your short-term and long-term benchmarks help inform your horizon and return decisions. For example:

> **Long Term**: Ten to fifteen or to thirty years; for example*,* business ownership, stock index, real estate
>
> **Short-term**: Up to seven years; for example, private equity, natural resources
>
> **Net Quick**: Your net quick is the amount of cash and equivalents (gold and silver) plus the amount you can get in cash by liquidating other assets within a given period of time. For example, three days to seven days or any time frame you choose that is appropriate for your purposes. As an element of your personal freedom index, it's a good idea to be mindful of what effects investment decisions have on your net quick position.

2. Risk Aversion

- **Business ownership** always carries its fair share of challenges and risks, and there are unlimited excuses for avoiding becoming your own boss—fear of failure, for one. But with the determination to *live life on your own terms* and the positivity of your prosperity mindset, you are equipped to overcome all challenges and setbacks. The biggest risk might be doing nothing and not attempting to challenge yourself.

- **Publicly-traded shares** have historically delivered high returns over the long term. That's why many long-term investors make shares the biggest portion of their portfolios. However, shares can be very volatile in the short term, as we recently experienced during the 2008 global financial crisis when shares fell 55 percent. For the long-term investor, volatility is generally irrelevant over time, unless the investor panics and sells before his projected wealth horizon.

- **Private equity** and **natural resource shares** allow venture capitalists and resource specialists to capitalize on risk by maintaining an aggressive commitment toward assessing and weeding out all but the strongest candidates for success. They then spread investment to the best-of-the-best plays, diversifying their risk, so that even one winner can make the overall investment exceptionally profitable. You, however, adopt untold risk if you don't invest alongside the proven experts.

- **Real estate** risk has everything to do with your property selections and commitment. Personally managed properties carry obvious risks, many of which you are familiar with as a homeowner. Real estate vehicles with seasoned management are less risky, such as real estate investment trusts, where market risk is not that different from stocks or bonds, and in fact often appreciate in down markets for securities.

3. Asset Class Returns

Even the most passive of portfolios require a certain amount of diligence in assessing realistic returns over time for each asset class and identifying risks associated with your assumptions. This is where experts and mentors can be of invaluable service and are essential for staying on top of trends, events, and opportunities. But it is your business to know your assets and make well-informed decisions as to how and when each asset class fits into your portfolio.

- Business Ownership: Well-managed businesses that provide true value-for-value for things people need don't go out of business during hard times. If anything, they capitalize on weak competitors folding or selling out. They consolidate their position. Innovation tends to flourish in down times. You have to establish your objectives within your business niche in accordance with your prosperity mindset. Just look around—growth and income can be substantial when competition languishes.

- Passive Income: As previously illustrated by the information regarding returns on stock indices, a good requirement is the high probability of a long-term annualized return of 10 percent, at minimum, from any prospective index. Since 1970, the S&P 500 has averaged a 10.31 percent return. It's possible to see 12 percent and even 15 percent over the long term, depending on added risk.

  Note: As of this writing, it may be prudent to hold cash on the side in anticipation of potentially large corrections in the index markets. We may be seeing the end of a historical upside cycle.

- Private Equity: You have a relatively small proportion (+/- 5 percent) of your portfolio in a private equity index managed by proven experts. First, you should be prepared to lose the entire investment without it impacting your portfolio in any significant way.

  During the last twenty years, the Venture Capital Index has returned 25.6 percent. This return was achieved through a portfolio approach to venture investing. Knowing that on average, only four out of ten promising venture investments will deliver risk appropriate profit, private equity aims high and turns down investment opportunities that don't represent grand slam potential to the overall fund.

- Natural Resources: Here we mean junior resource shares in gold and silver mines. Expertise in this sector comes from many years of full-time diligence. You don't have the time or background for that. Selecting the right research and advisory firm is what counts. In your mix of stock selections, look for a return of ten or twenty times or better. Having one investment that pans out will more than make up for poorer performing or lost shares. One hundred to 200 times return on investment is not that unusual. As always, invest only what you can afford to lose.

- Real Estate: Average annual returns in long-term real estate investing vary by the area of concentration in each sector. However, by any measurement, the long-term real estate sector has outperformed the overall market, even factoring in the drastic collapse in housing prices during the 2008 financial crisis. The stock market, as measured by the S&P 500 Index, has had an average annual return of 10.31 percent from 1970 to 2016.

The real estate market has had an average annual return of 11.42 percent measured by the publicly traded REITs (the FTSE NAREIT Equity REITs Index from 1970 to 1977 and the DJ Wilshire REIT from 1978 to 2016). The real estate market is a little bit more volatile than the stock market, but not by much.

4. Relationships between Asset Classes

Value relationships depend on regional, local, and personal circumstances and key factors such as personal assumptions. The Fed's control of money creation and interest rate manipulation adds to the uncertainty. One can, however, gain a good feel for the relationships between these asset classes through observance and experience—and by staying awake.

- **Business Ownership**: The financial results of your business may be affected minimally or not at all by other asset class markets—unless, of course, your business is directly involved in financial markets or services (but then again…). Your business results may dampen the negative effects of down markets in other asset classes while providing growth and income.

- **Passive Income**: Equities and fixed income securities or bonds have long been the core holding of portfolios, and still, to a large degree, have a prominent place. We should recognize, however, that we may be at the turning point of a long trend in need of a correction. Consider weighting cash and equivalents and shorter-term asset classes a little more so to ensure your ability to dampen any major broad market corrections in the offing.

- **Private Equity and Natural Resources**: These are your portfolio wild cards. Invest a modest amount in private equity and natural resource shares that you can afford to lose without significantly affecting your overall horizon objective. Know that they have the potential to become a game changer in your overall asset base. Down times have often been the birth of great companies seeking new solutions and efficiencies when they are most needed. And down markets are often quite friendly to technology, precious metals, and junior mining shares.

- **Real Estate**: Real estate indices are a separate class from, and usually have low correlation with, stocks and bonds. They can provide a balance to movements in the other asset classes. REITs are among the simplest ways to participate in the real estate market. They are baskets of properties that trade on the stock exchange and provide instant liquidity. They can help balance or dampen the effects of changes in other asset classes. Productive land and property ownership and management are also great ways to protect and preserve wealth through appreciation and income.

A Portfolio Model

Asset allocation is based on the principle that different kinds of assets perform differently in different markets and economic conditions. Different asset classes offer returns that are not perfectly correlated; hence, diversification reduces the overall risk of meeting an expected level of return. Asset diversification has been described as "the only free lunch you will find in the investment game." However, not everyone buys into the notion that *anything* can be truly free.

Asset allocation can easily be modified to satisfy your investment objectives, risk tolerance, time horizons, and available capital. Your Asset Allocation Plan, in keeping with risk, reward and manageability objectives, should favor particular asset classes and allocation ranges, as illustrated below. This framework is a starting point for you to begin the process of visualizing and familiarizing yourself with the key factors that will inform your portfolio plan. It is adaptable to your preferences and assumptions for asset classes, allocations mix, risk-return, and time horizons.

Example of an Asset Allocation Plan

There isn't a magic blueprint to follow when it comes to setting your Asset Allocation Plan. Passive investment doesn't mean sleeping on the job that the boss wants done; hopefully, you are the boss. Your choice of asset classes, asset mix, and objectives will be unique to you, as will the degree of your involvement in building and maintaining your personal portfolio. It's about how <u>you</u> wish to allocate and manage your resources and time. For example, take a look at the sample plan below:

Asset Class	**Lower Ranges**	**Upper Ranges**	**Objective**
Business Ownership	20%	30%	Income, Growth
Publicly Traded Stocks – Index Fund	10%	30%	Compound Growth
Publicly Traded Bonds – Index Fund	0%	5%	Income
Real Estate Investments	15%	30%	Growth, Income, Defense
Private Equity	5%	10%	Growth

Natural Resource Shares	5%	15%	Growth, Defense
Cash & Cash Equivalents	25%	40%	Insurance, Opportunity
	80%	160%	

These ranges and asset classes aren't set in stone, but provide a general framework for testing allocation strategies and assumptions. Asset classes in your portfolio model are distributed according to objectives and prevailing circumstances, resulting in a 100 percent allocation. The objective is to assess risk and avoid taking any that are unnecessary and fail to offer returns that compensate for the probability of loss. You can exclude or include any asset class into your portfolio model; for example, you may not have or want to include business ownership in your calculations, or perhaps you don't own any real estate yet. Construct and manage your asset allocation plan according to your own circumstances and objectives.

You can study the effects of different assumptions using the Portfolio Estimator below. This is a simple way to get familiar with an asset allocation plan and understand the impact of variables on your short-term and long-term bottom lines. You can employ "what ifs" to visualize the impact of your various assumptions.

Rebalancing Your Portfolio

Rebalancing is often the most difficult part of your asset allocation strategy because it is counterintuitive. It requires you to sell some of the investments that went up in value and buy more of what went down. Rebalancing is the means by which you get your portfolio back to its original asset allocation target, thereby remaining prudently diversified. You need to determine in advance your investment policy. For example, a sustained deviation of 6 percent or perhaps 10 percent could be your strategy point for considering reallocation. Stay within your long-term financial objectives and tolerance for risk.

Over the long run, a strategic asset allocation strategy can be relatively rigid. Therefore, you may find it advantageous to occasionally engage in short-term, tactical deviations from the plan to capitalize on unusual or exceptional investment opportunities. This flexibility allows you to participate in economic conditions considerably more favorable for one asset class over another.

Rebalancing hinges on a theory called regression toward the mean. That is, there is a natural tendency in the marketplace for all broad asset classes to yield a return close to their historical averages. The logic behind rebalancing reinforces the concept that it is better to sell high and buy low. Rebalancing the portfolio back to its target allocation periodically controls long-term risk and increases reward. Successful asset allocation is all about planning, implementation, and investment discipline.

The Lesson Resources > Asset Allocation page contains timely posts, books, research sites, and contacts that can provide additional knowledge, insights, and ideas on asset allocation.

Test Drive the Portfolio Estimator

Now you're ready to see how all the moving parts come together. With the simple Portfolio Estimator spreadsheet, you can build a hypothetical model right now to see how asset allocation principles work and how various assumptions affect horizon objectives and your terminal wealth objective.

Here is a hypothetical portfolio plan with some notes on the hypothetical investor's reasoning. These numbers were calculated in the Portfolio Estimator for illustration and to help you get started.

ASSET CLASS	CAPITAL	OBJECTIVE	REASONING
Business Equity	$70,000	$2,097,500	Started business with $20,000 in savings. Through product line expansion and innovation, business currently worth $70,000 based on free cash flow. Expect continued expansion and growth at 12 percent over next thirty years while generating income for covering living expenses.
Passive Income	$35,000	$611,000	S&P 500, thirty years at an overall target return of 10 percent per annum
Private Equity	$15,000	$450,000	In and out – a couple of home runs over ten-year periods
Natural Resources	$30,000	$524,000	Global cycles–buy cheap, sell dear–patience. Several horizons over thirty years. Target return rates of 10%.
Real Estate	$50,000	$873,000	Rental income, raw land in path of commercial growth, or REIT. Arable land. Closely watched buy / sell opportunities. Target return rates of 10%.
Cash	$100,000	$100,000	Consider only keeping up with inflation. Minimum 33 percent of short-term allocations.
Totals	$300,000	$4,550,000	An overall 9.57 percent return, or fifteen times original capital. Even with total loss or consumption of shorter-term private equity and natural resource investments, the terminal amount is still $3.6 million.

Note that conventional asset allocation portfolio managers don't generally include an encompassing range of asset classes, which would include all your asset classes, in determining long-term terminal wealth. Their allocations usually focus on stocks, bonds, and cash only.

Use the Portfolio Estimator to test different allocations and assumptions, and gain familiarity with how varying asset allocation percentages, investment horizons, and target return rates can dramatically affect your overall returns. The Portfolio Estimator helps you review possibilities based on your own inputs and assumptions.

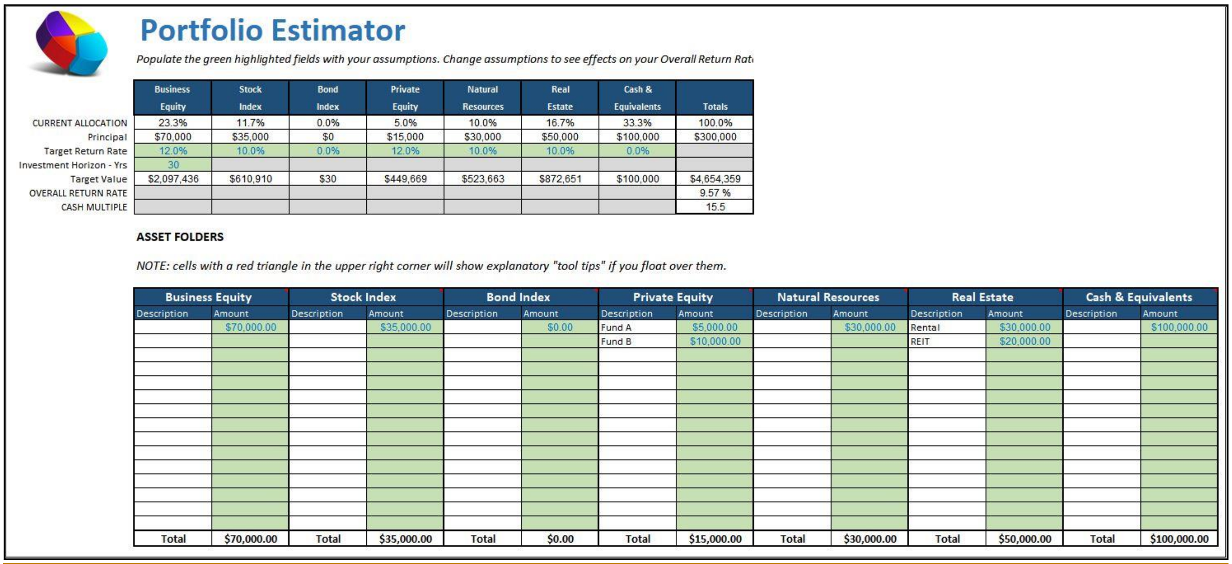
Portfolio Estimator Notes

- The Portfolio Estimator is a simple educational tool created in Microsoft Excel and easily customized for gaining a feel for the relationships among factors, such as expected return rates, investment horizons, allocation mix, and how modifying these factors affects overall return rates. It's a "what if" tool for testing your ideas and assumptions.
- The Portfolio Estimator is not a portfolio management tool. Excellent portfolio management tools can be obtained from companies like Vanguard, Fidelity, and Morningstar, among others.
- The projections generated by the Portfolio Estimator are hypothetical and do not predict actual investment results. This tool simply helps frame your thinking.

Getting Started

1. Populate the asset folders with investment dollar amounts.
2. Select target return rates.
3. Select the investment horizon in years.

Portfolio Estimator



Portfolio Estimator

Populate the green highlighted fields with your assumptions. Change assumptions to see effects on your Overall Return Rat

	Business Equity	Stock Index	Bond Index	Private Equity	Natural Resources	Real Estate	Cash & Equivalents	Totals
CURRENT ALLOCATION	23.3%	11.7%	0.0%	5.0%	10.0%	16.7%	33.3%	100.0%
Principal	$70,000	$35,000	$0	$15,000	$30,000	$50,000	$100,000	$300,000
Target Return Rate	12.0%	10.0%	0.0%	12.0%	10.0%	10.0%	0.0%	
Investment Horizon - Yrs	30							
Target Value	$2,097,436	$610,910	$30	$449,669	$523,663	$872,651	$100,000	$4,654,359
OVERALL RETURN RATE								9.57 %
CASH MULTIPLE								15.5

ASSET FOLDERS

NOTE: cells with a red triangle in the upper right corner will show explanatory "tool tips" if you float over them.

Business Equity		Stock Index		Bond Index		Private Equity		Natural Resources		Real Estate		Cash & Equivalents	
Description	Amount	Description	Amount	Description	Amount	Description	Amount	Description	Amount	Description	Amount	Description	Amount
	$70,000.00		$35,000.00		$0.00	Fund A	$5,000.00		$30,000.00	Rental	$30,000.00		$100,000.00
						Fund B	$10,000.00			REIT	$20,000.00		
Total	$70,000.00	Total	$35,000.00	Total	$0.00	Total	$15,000.00	Total	$30,000.00	Total	$50,000.00	Total	$100,000.00

This type of portfolio can be nearly 100 percent passive outside of business management, taking very little time to manage. You don't have to fret about elections, interest rates, or stocks and bonds gyrations.

Considerations & Takeaways

- The most important financial decisions you will make in life have to do with allocation and protection of your assets.
- Your asset allocation plan is at the heart of your life plan.
- The lessons in this manuscript help reinforce and enhance your asset allocation plan.
- The Portfolio Estimator is a simple tool for quickly reviewing and updating the assumptions behind the financial course you are on.

Employing the right asset allocation plan with protective trusts is the difference between spending your retirement in comfort and luxury versus spending your retirement worrying about outliving your money. The right strategy is wholly dependent on you—your wealth objectives, risk tolerance, and understanding of asset classes.

Lesson Resources > Asset Allocation provides resources for in-depth review and analysis of asset allocation and index fund investing practices and principles.

Lesson IV: Protective Trusts

25 minutes

***Note to my son**: When it comes to protective trusts, my son, be uncompromising. Only top professionals and trusted advisors belong on your financial and life planning team. Don't be so naive as to think that during your journey you won't be challenged by unexpected affronts to your personal ownership and rights. Erect wise and durable shields. Trust and collaborate only with those professionals who have time-proven expertise and reputation, and with whom you see eye to eye.*

Look offshore. There are reliable banks, brokers, storage facilities, and great places to visit or live all over the world. There are opportunities in the greater world that you cannot find at home. Don't let artificial boundaries bind or blind you.

Asset allocation and trust planning strategies go hand in hand. Both are absolutely necessary to protect your assets from frivolous creditors and lawsuits and reduce or eliminate all pertinent taxes, such as estate taxes, inheritance taxes, gift taxes, income taxes, and property taxes. These strategies are also important for providing you and your family with privacy and security and for eliminating the deleterious effects of probate with its disclosure of information, payment of expensive fees and costs, and expenditure of valuable time and money.

The modern trust started as a legal invention and dates back thousands of years. It was designed to permit individuals to determine the destiny and destination of their estate, rather than leave it to the reigning government to do so. The long history of designating trusts has evolved into the modern law of trusts in effect today.

What Is a Trust?

A trust is traditionally used to avoid the probate process and dictate the management and distribution of your estate in a private, lawful manner. A well-designed trust can provide ample asset protection and offer other benefits as part of a well-crafted estate plan. A trust is a fiduciary arrangement that allows a third party or trustee to hold assets on behalf of a beneficiary or beneficiaries. Trusts can be arranged in many ways and can specify exactly how and when the assets pass to the beneficiaries.

Since trusts usually avoid probate, your beneficiaries may gain access to these assets more readily than from assets that are transferred using a will. Additionally, if it is an irrevocable trust in which you, the settlor or funder of the trust, have relinquished control over the trust assets, the trust may not be considered part of your taxable estate, so fewer taxes may be due upon your death.

Revocable Trust

The wealthiest 2 percent, whose ranks I hope you'll join, are very diligent about implementing wealth protection measures. One of the simplest things you can do to protect your wealth is to establish a revocable living trust. A major benefit of using a revocable living trust is that you can avoid the probate process. The trust might own your assets, such as your home, brokerage account, and investment portfolio; thus, when you pass away, your heirs can avoid a costly and lengthy court probate process. Instead, your assets would be held in a private, confidential manner. Most importantly, your business would continue as usual with your family trust. The government and courts would not be able to gain control of your assets and their disposition.

A revocable living trust can also protect the trust beneficiaries. However, the revocable living trust, even with all its benefits, does not provide the settlor—the party who establishes and funds the trust—with asset protection from the settler's own creditors, unless the trust is established in a foreign jurisdiction that provides such protection.

Irrevocable Trust

The primary tool used by the wealthy throughout the world to preserve estates, protect assets, and minimize estate tax is the irrevocable trust. This type of trust is capable of both protecting assets and potentially eliminating estate tax. It is designed so that your assets go to your heirs in the same manner as a revocable living trust. The major difference is that the irrevocable trust cannot be changed, and you must relinquish certain rights and powers of control over the trust and its assets. The trust terms cannot be changed, and the trust may not be revoked.

In the global world we live in today, the use of an international trust can be very advantageous by capitalizing on the far more favorable legislation enacted by select foreign jurisdictions. Many of these laws provide parties to the trust with greater protection, privacy, and trust law benefits.

International Trust

If you're looking for the strongest protection possible for your wealth—protection that can't be undone by a runaway government agency or even by the cleverest lawsuit aggressor—an international trust is truly the best solution. Nothing else comes close. It's simply the strongest asset protection vehicle on the planet.

A properly structured international trust provides the maximum level of protection from anything that happens in your own country, and it provides you with the best protection possible from lawsuits, capital controls, and seizures by reckless government agencies. An international trust can also be drafted to protect family wealth from estate taxes, provide enhanced access to international investment opportunities, and, in certain situations, generate invaluable income tax benefits. These are just a few of the enormous benefits an international trust offers:

- ✓ Protection from malicious lawsuits
- ✓ Protection from arbitrary asset seizures
- ✓ Ready access to foreign investment markets and financial institutions
- ✓ Income tax planning advantages you won't get if you stay strictly at home
- ✓ A better legal environment for estate planning
- ✓ A way for family wealth to eventually disconnect completely from the US tax system

You may find that implementing a legal and secure international trust is easier and much less expensive than you think. And other entities, such as foreign limited liability companies and foreign corporations, may also be used advantageously to provide substantial tax savings and enhanced asset protection. The Protective Trusts lesson lists professionals and companies you can rely on for sound advice, and, if you so choose, professional services. Be mindful that constructing an appropriate legal trust is a complex matter that requires a comprehensive analysis of your specific situation in order to determine the most advantageous manner to structure ownership of the assets.

It is crucially important that you fully comply with all applicable reporting requirements. All taxes must be paid timely. You must observe all applicable legal requirements. Thus, employ only highly qualified professionals to protect your interests.

Lesson Resources > Protective Trusts

Going Global

In accordance with personal circumstances, concerns, preferences, and objectives, many people seek additional asset protection and risk diversification through internationalization or by going global. Setting up accounts outside of your country's borders is no longer a big deal. Any number of concerns can come into play in the planning and strategy process, including concerns about the value of the dollar, increasing investment controls, wealth confiscation measures, estate taxes, and predatory lawsuits, among others. Foreign banks with more conservative balance sheets and practices, international brokers who open up a much wider range of opportunities, and self-directed IRAs used in conjunction with offshore LLCs, in compliance with the law are among some of the ideal legal solutions that thousands of people employ. And for many, an offshore, non-bank storage facility for gold and silver provides an added layer of comfort.

You would do well to learn about:

- Generating exceptional investment returns, while taking minimal risk with lucrative investment strategies outside the mainstream.
- Protecting your assets and becoming invincible to financial crises and frivolous lawsuits.
- Saving tens of thousands of dollars by legally reducing your taxes.
- Obtaining a second passport (potentially for free) that will provide you with the lifelong benefit of more places to live, work, invest, travel, and do business in.
- Liberating your retirement savings with a structure that gives you control over your own money and lets you explore lucrative investments globally, rather from one country.

Today, internationalizing can be easily accomplished and managed from your couch or desk. Still, a highly qualified international tax attorney is a must, and a financial concierge saves time and money throughout the process. There are companies and experts who are deeply experienced and eminently qualified to walk you through this process and your options, and provide services at any level. You can find several of the very best individuals and companies that can help you develop and implement Plan B strategies at Perspectives > Going Global—plans that ensure asset security and personal security in any political, economic, or social environment.

As author, entrepreneur Simon Black points out:

> "Having a second passport is the ultimate insurance policy. It ensures that no matter what, you always have a place to go. To live. To work. To do business. To retire. And in some cases, even seek refuge. It also allows you more banking options, so you can move money out of your home jurisdiction (protecting yourself from frivolous lawsuits and overreaching governments)."

Flag Theory

Harry Schultz, former investment advisor and author of *The International Harry Schultz Letter* for forty-five years, devised the original Three Flags Theory, which advises “planting flags” in different jurisdictions for three parts of your life. This consists of obtaining a second passport, establishing an address in a tax haven, and keeping a good portion of your assets outside your home country. The idea was later expanded by author W.G. Hill to the Five Flags Theory to include a place where money is earned and a place for recreation.

This theory’s primary objectives include: maintaining enough cash on hand for living expenses for several months; placing a portion of your savings in a conservative foreign bank that maintains a solid balance sheet, sound lending practices, and is located in a friendly jurisdiction that respects your money and privacy; maintaining precious metals offshore in a non-bank storage facility; obtaining a second passport; using offshore internet service providers and structuring legal ownership vehicles that protect you against frivolous lawsuits.

The more places you base your life and your assets, the less control any one government has over you. Other Flag Theory opportunities include where you host your website and email service provider, where you register your business, or even where you receive your health care. Medical tourism and international internet services are just a few of the many ways Flag Theory can be easily applied in your own life. Keep in mind that numerous politicians, entertainers, sports figures, entrepreneurs, and corporate executives have gone global for asset protection, increased diversification, and broader investment opportunities, not to mention the benefit of offshore lifestyle and cultural experiences.

Seasoned Professionals

Everyone needs to stay ahead of financial events, trends, and unfolding regulations. It is only by developing your own network of professional and expert connections that you will be able to deal with unexpected contingencies, both good and bad, in a timely manner. At the core of your team, you need a top tax attorney, banker, accountant, and mentors or people who are not paid based on the decisions you make. These professionals are people whom you can trust, whose judgment you value, and who share your philosophy of wealth accumulation and protection. Once you have established your team, you will be able to build, manage, and protect your wealth with peace of mind and a high degree of predictable success.

Financial Concierges

Financial concierges can help you readily tap into established global networks of experts who understand that preserving wealth is as important as the accumulation of wealth. Financial concierges possess a broad and deep knowledge of legal asset protection and risk diversification strategies, and maintain working relationships with experts and professionals, both domestically and internationally. They are positioned to open doors to service providers and financial institutions appropriate to your own strategies and objectives. As mentors, they freely provide access to knowledge, insights, reports, and opinions to make your research and due diligence easier. You can learn in depth about topics important to you from financial concierges before engaging any professional services. Often, who you know is at least as important as what you know when it comes to building wealth. Every insight, innovation, and useful contact helps lead to other contacts and doors that open up to new opportunities.

Always remember that among your most valuable assets is the wisdom and insights of others.

Lesson Resources > Protective Trusts

Thoughts on Mentors

Based on my experiences attending lectures at investment conferences around the world and later visiting the speakers' websites and reviewing their online materials, it struck me that I was often getting more out of the online materials, which are available any time, than the in-person lecture. Most of these authors and lecturers have highly informative, free newsletters and blogs. Whenever I wanted deeper or specialized knowledge, by and large, they all provided a menu of services with contact information.

It's nice saying hello at a conference, but for how much money and time? Not to say that certain conferences with great, well-managed breakout schedules don't provide a valuable solution for experiencing group or individual facetime.

The word "mentor," when used as a noun, is defined as, "an experienced and trusted advisor." Used as a verb, it is defined as "to advise or train." Finding mentors doesn't have to be complicated. First, know your objectives and then discuss them with professional service providers, which usually doesn't cost anything for exploring and establishing understanding. Great advisors are great mentors first.

I have also noticed that some of my own thinking on a number of topics evolved and expanded as I followed the thinking of select mentors. In turn, their work led me to other like-minded experts in their own respective fields. This has made it easy to assemble a personal directory of the best thinkers for my own purposes. I want to stay close to their body of knowledge and expertise.

Today, great mentoring at many levels and in many fields is available more broadly, quickly, and cheaply than ever before. Every type of communication channel is available on the Internet. So is almost every type of professional skill. It's not hard to put together the right financial advisory team and trusted mentors who will remain faithful to your best interests.

Considerations & Takeaways

- Remember that due to the change in ownership, a future creditor cannot satisfy a judgment against the assets held in irrevocable trust. A revocable living trust, on the other hand, does not protect your assets from your creditors.
- Your tax attorney and any other financial professionals must maintain your best interests at heart by employing optimum, legal ownership structures.
- Never fail to report information or remit payment on time to government agencies when it is mandated. The penalties for failing to do so can be severe.
- Establishing a trust outside the US is the strongest step towards internationalization that you can take for yourself and your family. It's the ultimate legal structure for protection, privacy, and financial advantage.

You owe it to yourself and your family to ensure that your hard-earned wealth is protected and secure for generations to come. It's never too late to employ wise asset allocation strategies with durable protective trusts. The alternative can cause you a life a grief.

At Lesson Resources > Protective Trusts you can learn about your legal options for well-constructed ownership structures, and find the professionals best suited to help you develop and implement strategies and structures for realizing your financial and security objectives.

Special Note: Philanthropic Significance

***Note to my son*:** *Take pride in your accomplishments, but recognize where you've been—the ups and downs of your own journey—and provide generous opportunities for others to grow and succeed in their own journeys. Pay it forward wisely so that others may grab hold of a helping hand and one day lend theirs to others. Together, you can leave the world a better place.*

When a person has acquired the passive income and wealth to support his or her chosen lifestyle, it is time to move from successful prosperity to philanthropic significance. Sharing ideas and helping other people always brings us many more, often surprising, blessings. Without service to others, our life lacks purpose and meaning. Now that you know how to create wealth and freedom for yourself and your family, it is time to share your wisdom and blessings by helping other deserving people improve their lives.

Shared Enlightenment

Holy Grail benefits should be shared with the less fortunate who may not believe that financial freedom is available to them. This does not imply evangelism. It means reaching out to those who also seek a life that is well lived but don't understand how to achieve their aspirations. When a person reaches out and helps another person improve their thinking and circumstances for the better, the rewards are endless for both parties, frequently in surprising and unexpected ways. The Holy Grail encourages mankind to move from scarcity to prosperity, thus, elevating everyone toward freedom and happiness. The true joy of life is sharing ideas, knowledge, and insights, and helping other people realize their aspirations for freedom and happiness.

Love, of course, is the most precious blessing, and one of the most rewarding aspects of life. Character is worth more than wealth, power, or position. *Character is fate*. Integrity and honesty are fundamental to living a full life and achieving lifelong prosperity. Prosperity, tolerance, persistence, love, and good health are all choices we can make for ourselves. We can also help teach others the same.

Pay It Forward Wisely

Everyone who has achieved financial independence should consider funding their own private family charitable foundation that is directed, managed, and controlled by family members. This is one of the best ways for a wealthy person to give back to society and also to teach great family values to future generations. There are many deserving people who are less fortunate and would welcome education and training to better themselves.

Private family charitable foundations have helped to reduce inequities in the world and give faith and hope to people who are disadvantaged or orphaned. Education, living within one's means, and saving and investing long term are the best cures for poverty and ignorance. Some people simply need a helping hand.

Closing Thoughts

Note to my son: *Allow me to repeat, dear boy, what you may tire of hearing during the coming years, though I know you will take to heart:*

> *Don't chase rabbits. Exploit proven roads to prosperity; compound your earnings over time; know that how you allocate your assets is more important than individual assets; employ protective legal structures for your assets and loved ones; get to know smart, successful people; and be generous with your prosperity and time.*

Understand that the economic cycle for all asset classes is boom, bust, and recovery for many reasons. Bubbles form in the stock market, real estate markets, and other asset classes. Bubbles burst. You can bank on it. The Great Depression, hyperinflation in the 1980s, the Dotcom Crash in 2000, and the stock market meltdown in 2008, are only a few examples of this, with certainly more to come. However, overall market performance over time reverts back to the mean. You can bank on that, too. The long-term trend for well-allocated assets is always upward—societies grow, civilization expands, demand increases. It seems logical to assume that most of the Earth's 7+ billion people strive to improve their condition. And the availability of knowledge, technology and tools that improve life is expanding exponentially everywhere.

You can't control the economy, you can't affect the financial markets, you can't set the Fed's policy on interest rates, and you can't foresee the future. Neither can you change your neighbor, much less society. You *can* construct your own Holy Grail of values, principles, and practices. You can *live life on your own terms* and *never outlive your money*.

My best advice is to understand that these few considerations will determine your wealth, freedom, and happiness:

1. How much you consistently save
2. How long you allow it to compound
3. Wise asset allocation
4. Protective legal frameworks
5. Management of transaction and tax costs
6. The annual performance of your investments

Annual performance is the only factor you cannot directly control, though you can influence it. So, save as much as you can, allocate and manage asset classes wisely, employ enforceable ownership structures, minimize your costs, and profit from the laws of compounding.

Stay open to the infinite intelligence of the universe; covet your integrity; master your time; learn from and respect others; secure abundance, freedom, and happiness for yourself and loved ones; and leave your descendants and the world a better place.

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