Perpetual Wealth

Achieved through 150 year old Proven and Guaranteed Strategies, Real Estate and other Passive Income Solutions

by

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Wealth Strategist

PARADIGM LIFE

GROWTH | INCOME | LEGACY

BIOGRAPHY

GARY W. PINKERTON

Gary earned his Bachelor of Science degree in Mechanical Engineering from the U.S. Naval Academy in 1991 and a Master of Science in Nuclear Engineering from the University of Illinois in 1993. He spent 25 years serving as a Submarine Officer in the U.S. Navy, including commanding the nuclear attack submarine USS TUCSON from 2009-2011. His career was rewarding both professionally and personally with unforgettable opportunities to work with highly trained teams employing state of the art technology in support of our Nation and its ideals. It was the type of work that left no doubt it directly contributed to the balance of power across the world and the sustainment of personal freedoms across the globe. But as with any intense calling or career, two decades in the Navy and many deployments had stressed things at home and delayed other important pursuits. In 2011 Gary began a process of replacing his traditional earned income with passive cash flow by purchasing income producing real estate properties.

Gary studied and learned about the Perpetual Wealth Strategy and Wealth Maximization Accounts (WMAs), then more commonly known as the Infinite Banking Concept (IBC), while purchasing his first income property in 2011. Utilizing Paradigm Life's education process, Gary established a WMA to fund this first investment and has repeated the process as he works to continue building passive income sources. This journey had a huge impact on Gary's understanding of what personal financial security and success are and how best to achieve them – he recognized how far he and most Americans had moved away from sound financial principles that emphasize building a strong foundation focusing on safety and security, and pursuing dependable, consistent growth of their assets. Wall Street convinced families to hand over their hard earned dollars and all control, to hold on through frequent, turbulent market swings and exorbitant fees – it hasn't worked for most Americans, and it won't work. Gary joined Patrick Donohoe at Paradigm Life to help educate others and reverse this trend.

Originally from a dairy farm in rural Southern Illinois, Gary now lives with his wife, Sue, and their two sons on the central New Jersey coast.

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INTRODUCTION

My Story

While growing up on a small farm in the Midwest, I felt a pull toward both entrepreneurship and the personal finance industry. I found the many different ways that people made and grew money fascinating, especially examples where someone succeeded by building a business that solved other people's problems.

I was 10 when my father sold our herd of Holstein cows. They were a vital part of our dairy business that his family proudly operated for three decades. As I entered high school a few years later, he was forced to sell the entire farm. The interest rates of the 1980s made it virtually impossible to remain solvent. After the farm, dad started a few agricultural and manufacturing businesses, which my sister and I ran in high school after his health declined. Life at that time was far from easy or fun, but reflecting back on it, it's obvious that I owe most of what I've achieved in life to the lessons that those '80s interest rates and the unforgiving Illinois sunshine taught me.

My parents had almost no control of their financial situation in those years; I remember many visits from our banker. He was a family friend and I believe a man that truly thought he was helping when he convinced my father to take out variable interest rate loans in the late 1970s to buy equipment, expand our buildings and develop land. My dad proudly commented many times that he bought our 680-acre farm for $35/acre in the 1960s. Sadly, when we were forced to sell It barely 20 years later, he had no understanding of why we were broke, even after the land sold at close to 50 times the purchase price!

Many Americans of the "Greatest Generation" returned from the war to purchase a home with a fixed interest rate loan which made them a fortune when they sold it to retire in the 1980s. However, anyone caught holding a variable interest rate loan they couldn't get out of in those years was destroyed. My father and many, many other great Americans did not recognize they'd backed themselves into an impossible corner by becoming completely beholden to the traditional banking industry, and by not establishing any passive or guaranteed income sources.

Observing that lack of financial intelligence and its impact on my family, coupled with watching my mother sobbing at the dining room table while doing the books once a month, shook me deeply as a young boy; I was determined to never let that happen again and to help as many others as I could to stay off that path.

We also had a family friend that was a traditional door-to-door life insurance salesman. He would stop by a few times a year, and it was always the same routine. My mother would nervously clean off the dining room table at the last moment, and it was clear that she and dad were a little on edge, wondering what this visit and the next step in their plan for security would cost. My sister and I loved it when he came; he would always bring a small container of sweets from the Bunny Bread bakery and mom would let us eat them while they sat at the table, well into the evening, discussing how to best protect our family. While both were close family friends at the time, I certainly look back on our insurance salesman much more fondly than our banker; our banker brought back ideas each year of how to refinance into another variable loan with an even higher balance but a slightly smaller payment because we had just pushed out the payoff date several more years...we were running our own little Ponzi scheme but were unfortunately playing the sucker in Ponzi's 'greater fool' theory. Of course this was not a sustainable plan with 18% interest rates, and when threatened with foreclosure, my parents tried valiantly to sell.

They met with a great young couple excited to start a farm together and they settled on a price that would cover all our debts. We were one week from closing, held an auction to get rid of our equipment and everything left over was packed up in boxes. Then everything fell apart. Our agent informed us the couple had kept their down-payment in the stock market with the hope of growing it a little before they needed it for the purchase, and that it was lost following a market correction the previous week. The buyers were thousands of dollars short and the loan had been cancelled.

We sold the farm for much less a few months later, making enough to pay off the loans shortly before the scheduled foreclosure; we walked away penniless, but without defaulting on any promise and that meant a lot to dad.

In contrast, our Farm Bureau agent's whole life insurance product saved our family from ruin, twice. Years of extreme stress had taken a toll on my father and his health began to fail. Lucky for us, it was after he had purchased his life insurance policy.

Dad passed away a couple of years after we sold the farm, and his life insurance death benefit finally put my mother in a better place. She wasn't comfortable enough to quit working, but she at least had all her needs met and stopped worrying about how we'd make it through the next week for the first time she could remember. My sister and I worked really hard in school for the grades we needed to earn academic scholarships to college. We saw this path as our only way out of poverty and thankfully, it worked – she went on to earn an engineering degree at a highly ranked college and I got accepted to the Naval Academy.

Life was looking up and we felt very fortunate for a couple of years until mom was diagnosed with Parkinson's in our senior year of college. She bravely fought her condition for 27 years, only recently passing away. She spent over a decade in a nursing home and several years of assisted living before that. We didn't have long term care insurance when she was diagnosed at age 51, and I doubt either of us even knew it existed. As I'm sure you can imagine, 27 years was more than sufficient to drain her resources and she lived the last few years on state care. Yes, it is true that state facilities are much less glamorous than private senior living, but I will be forever grateful for the wonderful care provided to her at that nursing home, all orchestrated by a true saint, my dear cousin that faithfully looked after her for well over a decade. Much of her comfort was also made possible by her whole life policy. That policy provided cash over the years for a much better life.

While the drama and pain of losing the farm was clear to me at the time, it took two decades for me to really appreciate what I'd learned about banking, leverage, multiple streams of income and the security that comes from shared risk tools like life, health and long term care insurance. I entered my working years knowing I needed to be conservative and save far more than the average person was doing, never putting away less than 25% of my income, but I was not financially literate and followed the herd of busy working families that handed our money off to someone else to put in the stock

Figure 1 - S&P 500 Index at Inflection Points, 1997 - 2016. Source: J.P. Morgan Asset Management team. Red and Blue lines and tet added for emphasis.

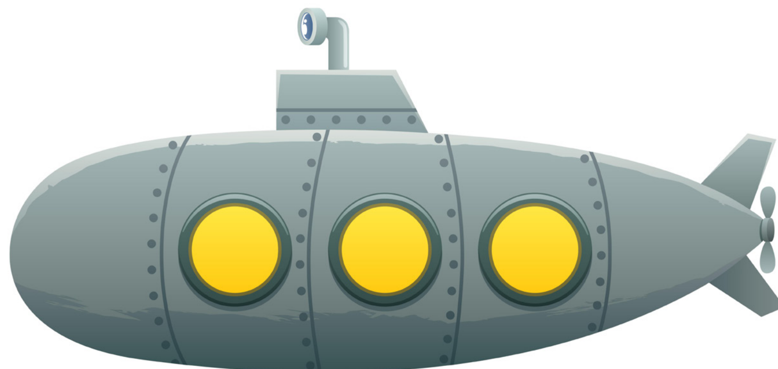
market for us. I accepted that remaining in the market during good times and bad while dollar cost averaging was all I needed to do. The first market crash I remember paying any attention to was Black Monday in 1987, but as I saw this process repeat in 2000, and 2008-09, I started to ask questions.

During the short but large correction in 2011, I remember counting up how much I'd invested over 20 years, and it was almost identical to what I had total in retirement and taxable accounts. Figure 1 shows a chart that JP Morgan Chase's Asset Management team maintains to track market peaks and valleys that illustrates my experience well. Aside from the shocking reality of the impact of market corrections on savings, to me this chart clearly shows the next crash in the series that have come every 6-10 years for over a century is far overdue.

Sadly, we're seeing the same euphoria that has been widespread at the end of all previous bull runs, "This time is different." In this case, I agree; government money printing has kept the bubble inflated an extra 3-5 years as Baby Boomers shifting massive sums of money into 401(k)s did in the 1990s. But I disagree that it is different in the way market optimists and the uninformed mean when they use that statement, that it will somehow avoid a 3-4 year correction back below an index price of 1,000 very soon.

So why did I write this short book? To awaken and prompt action from working families across America; to get others to take back control of their finances and grow their hard earned dollars safely and predictably. I've come to believe that many Americans go through life as busy and completely distracted from their financial security and retirement as I was.

In 2008 and 2009 I was extremely preoccupied with preparing for and struggling through the first few months of leading my new team of 140 submariners – I knew the economy was softening, but I had no appreciation that the market had dropped 57% during that time; I'd been set back close to a decade and had no idea! My job happened to be running a nuclear submarine which created unique challenges for trying to keep up with changes in the market. Being too busy, and frankly too scared to watch the market was not uncommon during that time in our history or before any crash for that matter. Turning over control and responsibility to those deemed the professionals and holding on until the next recovery is what we were told then, and are still told to this day.



I realized in 2011, that after 20 years, my contributions exceeded my account values while financial magazines continued to report that my mutual funds exhibited 8% average annual returns. It was a watershed event for me and caused me to take a better path, one of direct control of my assets and insulation from market volatility, fees and corruption. Five years later, our family's finances are on a much better trajectory! It hasn't all gone perfectly, I've learned additional lessons, but by maintaining control I've had the ability to mitigate the impact of, and prevent repeating these mistakes. Now it's my mission to pass along what I've learned and help as many other families as I can to take the better path.

It is my hope that the information on these pages makes you at least reconsider the mantras that you hear every day of "let us manage your money, you are too busy," "invest for the long term in a diversified basket of stocks, bonds and mutual funds," and "don't worry about market corrections, use it as an opportunity to dollar-cost-average and buy more, the market always goes up in the end."

YOU MUST TAKE BACK CONTROL TO ENSURE SUCCESS

"What you pay attention to grows"
- Deepak Chopra

Handing the management of your finances and retirement to someone else is NOT the solution. Your Asset Manager cares about his income and retirement far more than he does yours. A great mentor of mine once told me that when choosing a path, even if the two choices of handing over your fate to another and maintaining control end in the same place, you will always benefit from choosing to keep control. As he explains it, "In any circumstance, even in failure, there is a valuable gain when you have control because you learn." I have come to realize that passive Investing over the long term will NEVER work. No-one, regardless of how long you've known them or how much you pay them, cares about your money as much as you do. They simply will not tirelessly shepherd your dollars to success as you would if you had the financial knowledge and opportunity to do so. That's just human nature, and I don't believe you can solve it by finding a better money manager or paying someone more for the service. In rental real estate there is a concept that all investors learn if you're in the business long enough, "there is no true passive investment, YOU have to manage your managers."

You certainly can find and put in place ethical, competent individuals to manage the tenants, complete the maintenance and buy and sell assets for you, but if you don't spend the time needed to check up on performance and give periodic course corrections, your business will suffer. The same is true for managing the general partner in a syndication you've invested in, and the manager of your hedge fund or mutual fund. The problem is that in these pooled investment examples, there is no reasonable way I've found to maintain control.

You have no access to accounting records to see with any detail how your money was grown and spent, and often you don't even have access to the manager at all. While I've tried several pooled investments for paper assets (Wall Street products), real estate deals and small business ventures and regretted all of them, I do believe it is possible to succeed and have control in these opportunities if you position yourself as the largest investor in a very small group, have full access to all the books, and take the time to 'manage your manager.'

401(k)s – Shifting Retirement Risk to the Employee is a Failed Experiment. It is no secret that there has been a dramatic shift by American employers from providing defined benefit (DB, or pension) solutions to defined contribution (DC) plans (e.g., 401(k)s and IRAs) that started in the late 1970s, but this new DC option was never intended to be the primary solution and it hasn't worked. A recent large Google survey conducted by GoBankingRates.com and reported in Money Magazine demonstrated that 1 in 3 adults in America have NO money saved for retirement, and even for those over 55, a full 28% have no retirement (see Figure 2). Of this latter group that are near or in retirement, over half have less than one year of expenses saved.

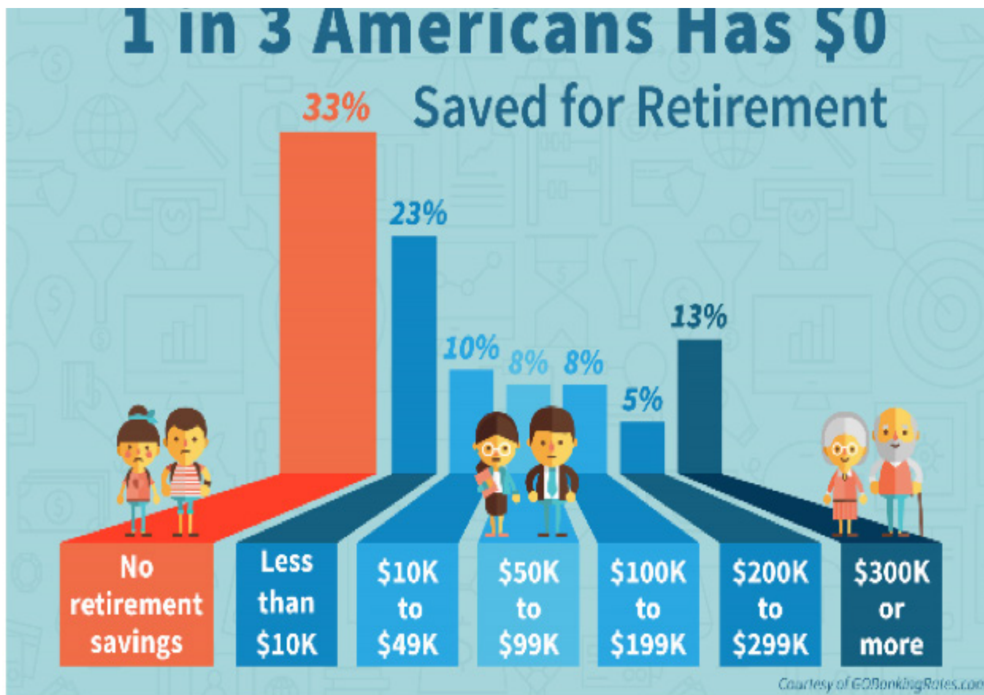


Figure 2 - 2015 survey showing percentage of American couples with different levels of retirement savings.

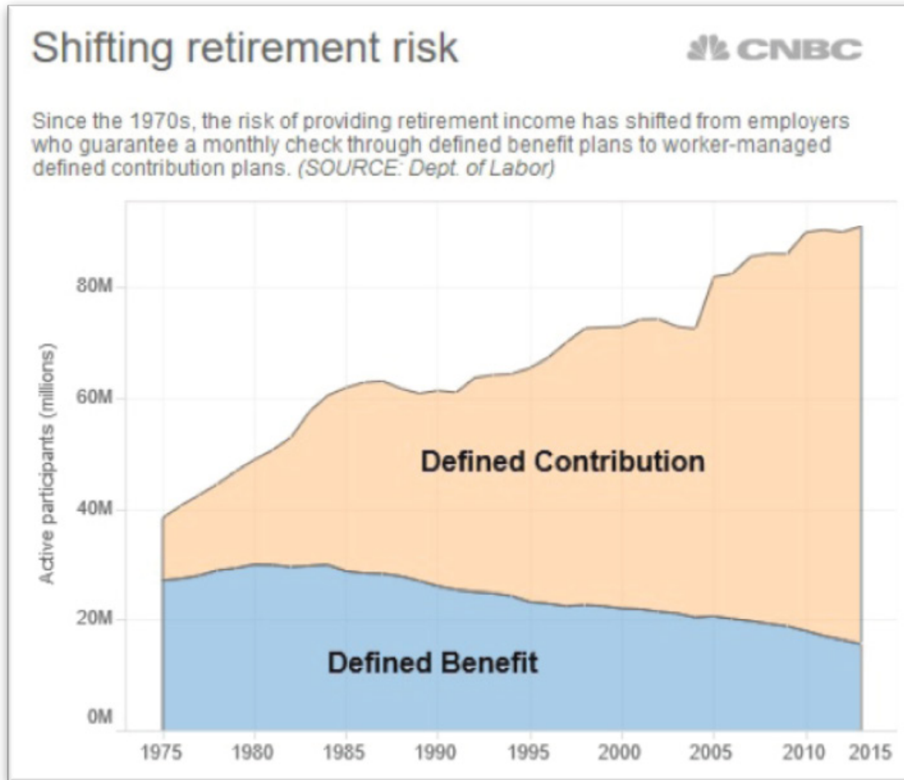


Figure 3 - The transition from defined benefit to defined contribution plans. 401(k)s were never designed as the nation's primary retirement system...They came to be that as a historical accident." But a funny thing happened as 401(k) plans began to multiply: defined benefit plans started disappearing. In 1985, the year there were 30,000 401(k) plans, defined benefit plans numbered 170,000, according to the Investment Company Institute. By 2005, there were just 41,000 defined benefit plans–and 417,000 401(k) plans. [Footnote: (1) For Millions, 401(k) plans have fallen short. CNBC, 23 Mar 2015]

In DB pension plans, the employer retains 100% of the risk of providing income to the retiree no matter how long they live. They achieve this by pooling risk exactly as insurance companies do with life insurance (most DB plans are run by insurance companies for this reason). The cost of providing income to those that live a long life is offset by those that die at a young age. But in DC 401(k) plans, the employee must design and ensure they fund their own retirement. For individuals that enter retirement in poor health and those that unexpectedly die young, making retirement savings last was never a consideration, but for those gifted with great health, retirement can become a financial nightmare. Figure 3 shows the extent of this transition as public and private employers shifted the retirement burden to the workers. Since very few employees in America have gained even a minimal level of financial literacy, they hand over their income to professional money managers that promise to ensure them a secure retirement. As Figure 2 demonstrates, there is a growing mountain of evidence that pushing the risk of outliving one's retirement funds from the employer to them, shifting from DB pension plans to DC 401(k) plans, is not working for most people.

Am I proposing that the government should force private companies to fund DB pension plans? No, certainly not. After all, my premise of this section is that YOU must take control. There would be nothing wrong with this shift of risk from the employer that cares somewhat about their former employee's quality of life in retirement to the employee themselves where that concern is primal if the employee had the financial knowledge and tools they needed for success. Instead of learning about personal finance in school, we enter our working lives with no roadmap and most of us follow the herd. We're bombarded with advertisements that tell us to turn our retirement over to the professionals, invest for the long term (don't get upset if the account goes down in a given year), and to reduce risk by dollar cost averaging (small automatic payments over a long time) into diversified funds.

Do the best investors, the professionals, believe in and follow this 'hand over the assets and let us manage them for you' path? Not a chance. Warren Buffet, credited for being the most successful investor of all time, has spent a lifetime practicing the opposite and repeatedly advising us to "Put all of your eggs in one basket and watch it like a hawk." He is successful because he only puts his money in ventures (companies) of select industries he has studied, knows intimately well, and can control. There are individuals that have achieved lasting wealth building, owning or buying stock in businesses of every industry, but it was because they first learned the business, industry and expected trends – they spent the time and gained the financial knowledge for success, they didn't read about the good opportunity in an investment newsletter or blindly send their money off to a target date fund advisor.

Many people would agree with the statement that trading options, a way of multiplying the upside and downside returns in stock trading, is very risky, and it certainly would be for me because I have not mastered the options process nor studied a target company and industry. Similarly, it would be risky for an options expert with 20 years of experience trading only agricultural commodities to decide to shift without preparation to trading options on computer chips.

"There are no bad investments, only bad investors."

- Rober Kiyosaki

So while I am not great at investing in the stock market and have chosen real estate for my focus, many are very successful at it, but they haven't succeeded by handing their money (and all control) over to a fund or portfolio manager. In traditional DB pension plans, the employer retained the risk and responsibility of ensuring there was enough money to support their previous employee throughout retirement; in the new DC 401(k) landscape, risk and responsibility are on the individual and millions have handed over the keys to layered management schemes where they are left in the dark and without control. There is a better way that comes with guarantees and a flawless track record – this book is a brief introduction to that better path.

An Alternative Plan: Saving Outside the 401(k) – An IRS Approved Retirement Plan that is Private & Tax Free. Several studies like one recently conducted at Boston University are demonstrating that what most people think is the best way to save, their 401(k), is no longer the case. In fact, it hasn't been the case for a long time. Over 30 years ago the IRS and Congress approved a retirement savings plan known as a Non-Qualified Private Retirement Planning Alternative. In layman's terms, it comes down to developing your own retirement plan through "non-traditional" savings vehicles approved by the US Government. By developing your own private retirement plan, you stand to enjoy the following benefits:

- 100% guarantee of principle and earnings

- Tax free distributions

- Guaranteed minimum interest rate as high as 4%

- 100-year history of dividends

Navigating the Retirement Mountain

The Solution to a Prosperous Retirement is Successfully Dealing with the Unknown. A very helpful contemporary analogy for understanding the challenge of making retirement income last is to think of your financial life as conquering an enormous mountain. Much like the long path to reach the summit, our working (or producing) years are about growing and accumulating a retirement nest egg. Those that have rounded the peak, or the transition into the retirement distribution of that nest egg, will tell you that the journey is not just about going up; that is the easy part to figure out, you must also make a plan for getting all the way back down safely.

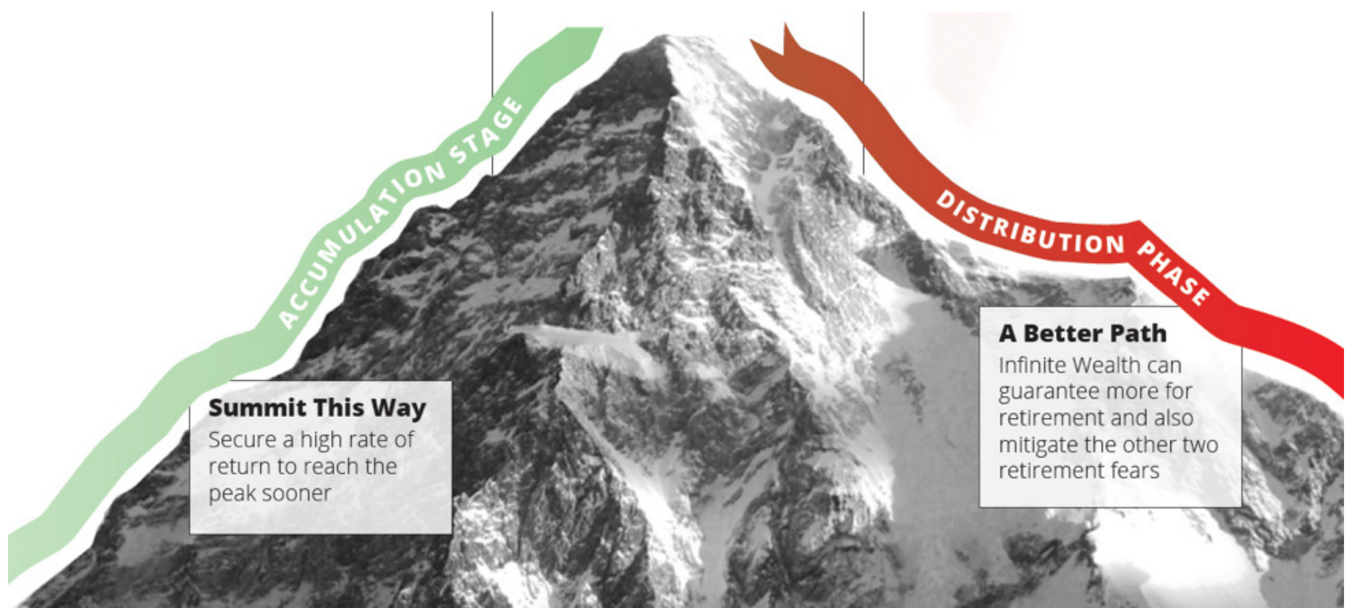


Figure 4 - The path followed by most individuals in retirement; attempting to stretch a retirement nest egg by conservatively spending it down throughout the distribution phase.

So why is distribution so much harder than accumulation? It's the big unknown: Where is the end? How long will we live? And we all fear the unknown. During accumulation, we can just take the remaining savings amount to reach our goal nest egg, the time until we reach that chosen retirement date and our guess at our investment return, plug them into a free online calculator and we know how much we must save every year. If the annual savings rate is too much as many Baby Boomers have experienced over the past decade, we either lower our goal, work longer, or take the chance of losing even more by chasing a higher return from more risky investments.

In distribution however, because we don't know how long the money has to last, or if there will be a catastrophic event like long term care for Alzheimer's or Parkinson's disease that consumes a large portion, most people find themselves unwilling to spend down their savings. Couples that lived comfortably or even lavishly in their later accumulation years, the peak earning years of their career, find themselves immediately watching every penny and stretching the years between new cars in retirement. They're worried about three things:

1. Running out of the money for the essentials and for enjoying life.

2. Rising costs of healthcare and the potential for devastating long term care bills.

3. Maintaining their independence; living with their children only if everyone really wants that.

The 4% Monte Carlo spend-down plan does not work – Using a 401(k) plan alone is a retirement of poverty. Suddenly, and typically after already retiring from their lucrative career, millions of previously comfortable Americans have found they don't have security; there are no guarantees built into their trip 'back down the mountain.' The chart below is from recent work conducted by Dr. Wade Pfau, a guest writer for Forbes magazine and professor at the American College. In this chart he shows the probability that you will spend every dollar of your next egg before reaching 30 years in retirement. Using the standard for planning since the 1990s, withdrawing 4% of your nest egg each year (WR = 4%), he shows there is a 7% likelihood of failure even with half of your money in stocks which most people won't be comfortable doing in their 80s. Or to state it differently, he predicts a 93% chance of having at least $1 left when they pass away. When the consequences of failure are low (for example, not winning the vacation raffle you entered), 93% chance of success are odds most of us would probably like.

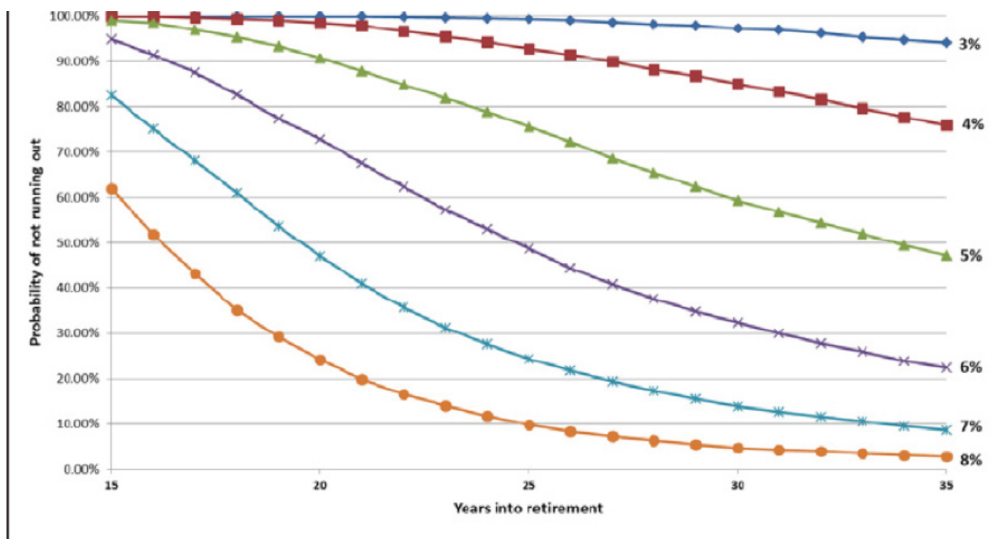


Figure 5 - Probabilities of not running out of money, at various retirement income withdrawal rates.

But if the penalty for being part of the 7% were instead starving to death, freezing to death without shelter, or even being relegated to living without dignity under state care in a sub-standard nursing facility, most people would work to reduce their risk to 0% if possible. If the next time you got on a commercial flight, the pilot came on the intercom, welcomed you in his normal reassuring voice and commented on the nice weather at the destination but that there were a few storms reported along the way and that there was a 93% chance you would arrive without crashing, wouldn't you get off that plane? It is our basic instinct as animals – In matters of life and death, we all work to achieve 100% certainty if possible.

Dr. Pfau's research does indicate that you could count on having at least $1 left if you only withdrew 3 percent of the nest egg each year. For example, if you had saved $1M, the most popular goal amount in America today and one that would put you among the top 5% of individuals retiring in 2016, you would be able to take out $30,000 using the 3% withdrawal plan. After adding social security and then reducing again for taxes and dramatically higher health insurance costs in retirement, you would be left with $40,000-50,000 to live on. While that is probably a shockingly meager existence for a millionaire, Dr. Pfau's research indicates that you would likely not run out and would have at least $1 to pass along as legacy at the end. This reality is surprising to most I share it with and worth repeating – the typical American that has amassed over $1M at retirement was making $200,000 or more at the end of their career. Their after-tax income they have the first year in retirement of $45,000 will be far different than the $120,000 or more they had after taxes the year before they retired.

At Paradigm Life, we have a much different, and better path – a Guaranteed Solution. Our path guarantees you'll have significantly more than a dollar when you pass on, but our solution doesn't stop there: our strategy also mitigates the other two fears, catastrophic healthcare costs and loss of independence. Our Infinite Wealth Concept enables us to solve each client's unique problems and concerns using proven methods that have worked consistently for 150 years. We put guarantees back in your life so you have peace of mind to enjoy the retirement you've looked forward to for so many years.

Protecting Your Hard Earned Dollars – Never go backwards!

> "I am not so much concerned with the return on capital as I am with the return of capital"
>
> - Will Rogers

Will Rogers is known for his witty phrases and comedic contributions, but he was also someone that had the ability to cut to the chase; a man that could summarize societal issues in very brief, powerful and memorable quotes. After several attempts to chase high returns on Wall Street and on Main Street, I've personally learned the value of his quote that I placed at the beginning of this section – if we simply focused on putting our dollars to work in investments and ventures where it was highly likely we received the contributed dollars, or our principal, back, there would be a lot fewer seniors in trouble today; risky investments that result in the loss of principal set individuals back decades in their savings and cause them to take even bigger risks to catch up. Here is a simple example to illustrate the point. If you hear about a hot stock that tripled in value last year, you may decide this is your ticket to catch your nest egg for retirement up to where you planned it would be by now. You invest and get a 100% return in your first year. It isn't the 300% of the previous year, but you are ecstatic. Unfortunately, the next year it loses 50%, and realizing that may not be the end and perhaps this is too risky, you sell. Figure 6 (next page) shows the results.

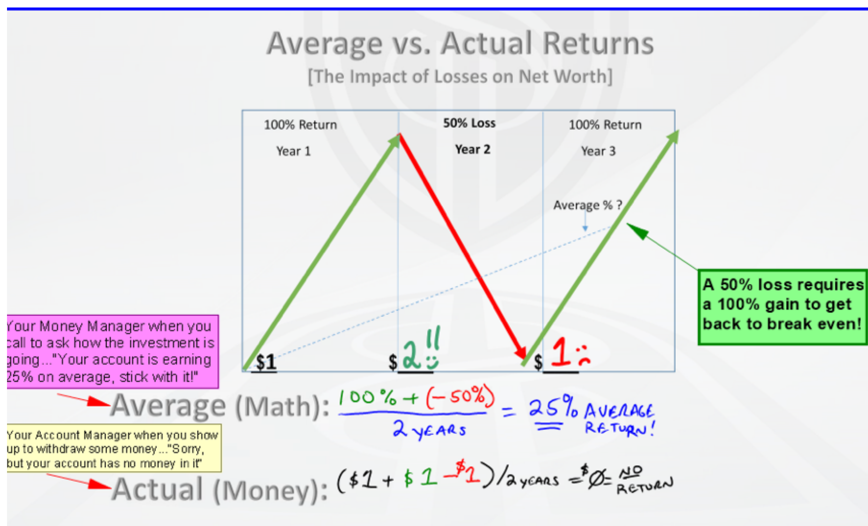


Figure 6 - The misleading "Average Annual Return" versus compounded annual growth rate, the actual change in account value. This example also demonstrates the magnified impact of negative returns.

Losing only half of your account value after doubling the previous year means you have given back all of the gains and are where you started (actually below the start if you factor in taxes and fees). Overcoming a 50% loss requires a 100% gain; a 25% loss requires a 50% gain, etc. The other problem that this figure helps to bring to light is the very misleading primary measuring stick for mutual funds and stocks, the 'Average Annual Return.' While mathematically accurate, this number is useless when it comes to growing your family's wealth, and worse, it misleads individuals into believing that 'negative' performance years don't have a big impact. The 'average' return for this investment over the first two years is 25% annually. That will certainly catch the interest and investment dollars of many unsuspecting investors. The problem is that the actual change in their account was zero (and negative with fees and taxes).

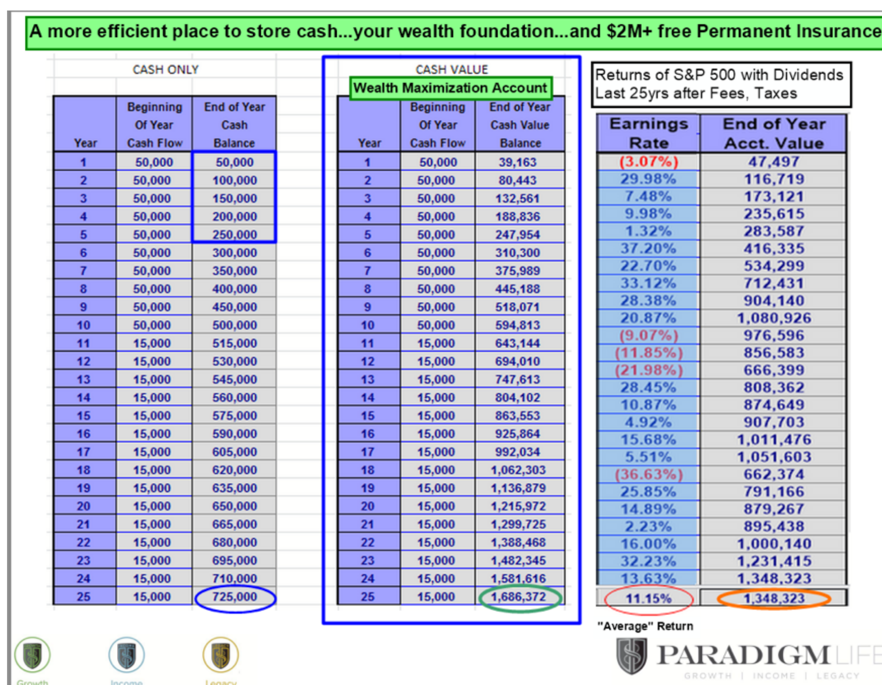
I've had people stop me at this point and say "Yes, but the market does not have this drastic of changes." That's probably true for a broader market like the S&P, but if the green and red arrows in Figure 6 were each four years long, the math for both Average and Actual performance would not change. Let's refer back to the JP Morgan Asset Management team's chart I showed earlier to see that this exact trend has happened 3 times in the last 2 decades (see Figure 7, next page).

"Rule No. 1 - Never lose money. Rule No. 2 - Never forget rule No. 1"

- Warren Buffett

Figure 7 - S&P 500 index 1997 – 2016. Red and Blue highlights, lines and text added for emphasis.

Demonstrating the impact of these market corrections on family wealth is best shown by comparing it side-by-side with two other benchmarks, a savings account and a Wealth Maximization Account that we set up at Paradigm Life (see Figure 8 below). I've selected these two accounts for comparison because both guarantee that your account value, your wealth savings, cannot ever go down.



A more efficient place to store cash...your wealth foundation...and $2M+ free Permanent Insurance

CASH ONLY			CASH VALUE – Wealth Maximization Account			Returns of S&P 500 with Dividends Last 25yrs after Fees, Taxes	
Year	Beginning Of Year Cash Flow	End of Year Cash Balance	Year	Beginning Of Year Cash Flow	End of Year Cash Value Balance	Earnings Rate	End of Year Acct. Value
1	50,000	50,000	1	50,000	39,163	(3.07%)	47,497
2	50,000	100,000	2	50,000	80,443	29.98%	116,719
3	50,000	150,000	3	50,000	132,561	7.48%	173,121
4	50,000	200,000	4	50,000	188,836	9.98%	235,615
5	50,000	250,000	5	50,000	247,954	1.32%	283,587
6	50,000	300,000	6	50,000	310,300	37.20%	416,335
7	50,000	350,000	7	50,000	375,989	22.70%	534,299
8	50,000	400,000	8	50,000	445,188	33.12%	712,431
9	50,000	450,000	9	50,000	518,071	28.38%	904,140
10	50,000	500,000	10	50,000	594,813	20.87%	1,080,926
11	15,000	515,000	11	15,000	643,144	(9.07%)	976,596
12	15,000	530,000	12	15,000	694,010	(11.85%)	856,583
13	15,000	545,000	13	15,000	747,613	(21.98%)	666,399
14	15,000	560,000	14	15,000	804,102	28.45%	808,362
15	15,000	575,000	15	15,000	863,553	10.87%	874,649
16	15,000	590,000	16	15,000	925,864	4.92%	907,703
17	15,000	605,000	17	15,000	992,034	15.68%	1,011,476
18	15,000	620,000	18	15,000	1,062,303	5.51%	1,051,603
19	15,000	635,000	19	15,000	1,136,879	(36.63%)	662,374
20	15,000	650,000	20	15,000	1,215,972	25.85%	791,166
21	15,000	665,000	21	15,000	1,299,725	14.89%	879,267
22	15,000	680,000	22	15,000	1,388,468	2.23%	895,438
23	15,000	695,000	23	15,000	1,482,345	16.00%	1,000,140
24	15,000	710,000	24	15,000	1,581,616	32.23%	1,231,415
25	15,000	725,000	25	15,000	1,686,372	13.63%	1,348,323
						11.15% "Average" Return	1,348,323

Figure 8 - Growth of equal contributions made by a 35yo male in a savings account at 0% interest, a Wealth Maximization Account, and an S&P 500 mutual fund with 2% total costs. Assumes 28% tax bracket.

PERPETUAL WEALTH

Growing Permanent Family Wealth.

Most people are familiar with the seemingly magical effect that compound interest can have on their life savings, and they know that the path to finally getting ahead is having money left over at the end of the month. It's called delayed gratification - forgoing a desired purchase today so that you can have much more in the future and to sustain yourself when no longer working. But getting on the Compound Interest Curve is not the issue – like making a New Year's resolution to start yet another diet, the first few steps are not hard; staying on the curve is what's difficult, and unfortunately what is required to achieve financial prosperity.

There are four elements that improve success in growing wealth: Starting early, contributing consistently, achieving an adequate rate of return (net of taxes and fees), and limiting withdrawals or losses along the way. Figure 9 illustrates the dramatic impact that time has on growing an annual savings of $3000.

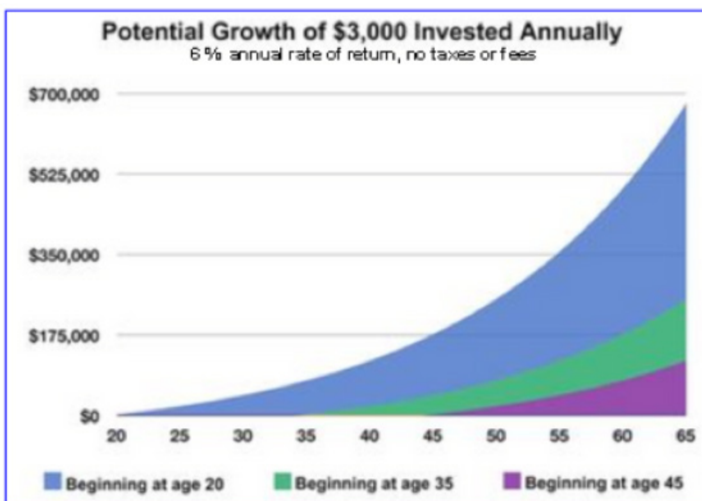


Figure 9 - Impact of delaying saving for retirement. $3000/ year earning 6%; starting ages 20, 35 and 45.

"Compound interest is the eigth wonder of the world. He who understands it, earns it... he who doesn't... pays it."

- Albert Einstein

To restate this impact in terms of saving for a specific nest egg goal at retirement, Figure 10 shows that at an 8% annual rate of return, you could save $2400 a year, just $200/month, to reach a retirement goal of $1M at age 65 if you started as a 20-year-old. Contrast that with starting to save 10 years later at age 30 where the required savings is over twice as high.

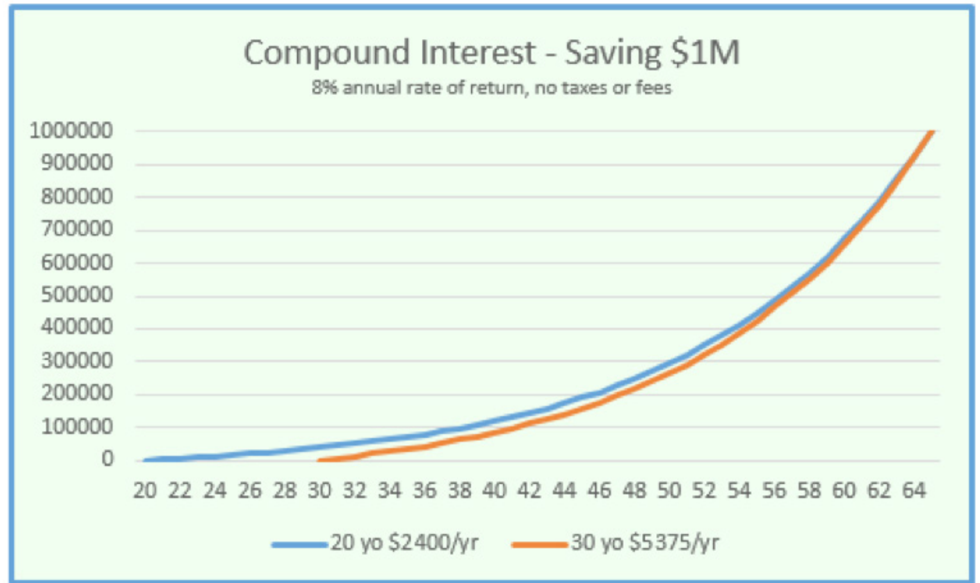


Figure 10 - IImpact of delaying saving for retirement. Monthly savings required to reach $1M.

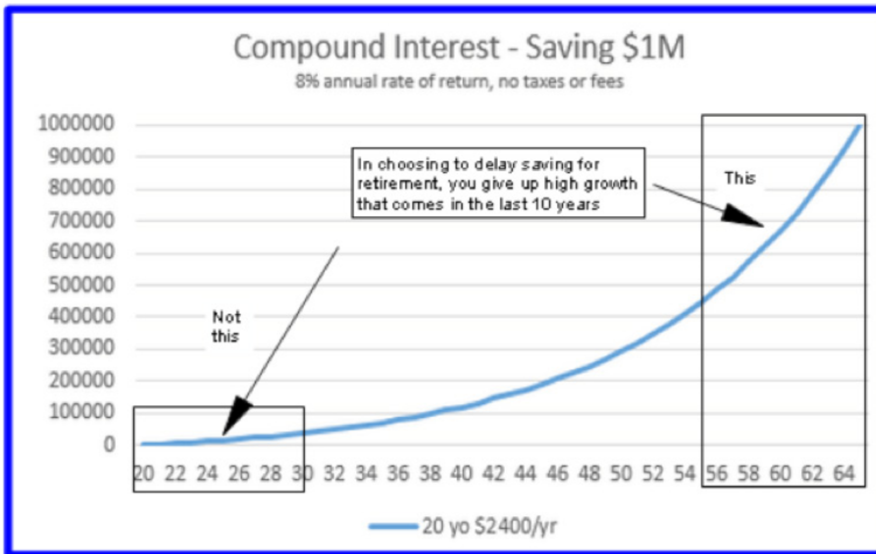


Figure 11 - Compound interest curve. $2400/year growing at 8%.

Why does this seem so surprising? I believe it is because when we look at the 10 years the late starter didn't invest from ages 20 to 29, Figure 11, the curve looks flat and we think "What's the big deal of waiting another couple of years, nothing happens early on anyway?" But what actually occurs in waiting is that you cut off the last 10 years, not the first 10, and growth in those years is steep.

Assuming someone appreciates the impact of time so that they start early, contribute consistently and achieve a reasonable return, there is still one hurdle that most don't make it past, overcoming the temptation or perhaps need to take the money out and use it. Interrupting the compounding of your wealth, which also occurs when a market correction reduces your account balance, has a tremendous impact on your savings at retirement. Figure 12 demonstrates this compounded loss of half of the original savings that occurs because of a withdrawal (or market correction) that took place along the way. What if you put in place a way to access these dollars without interrupting their guaranteed, private and protected, tax free growth along the compound interest curve? That's what we teach clients how to do, and help them implement every day at Paradigm Life.

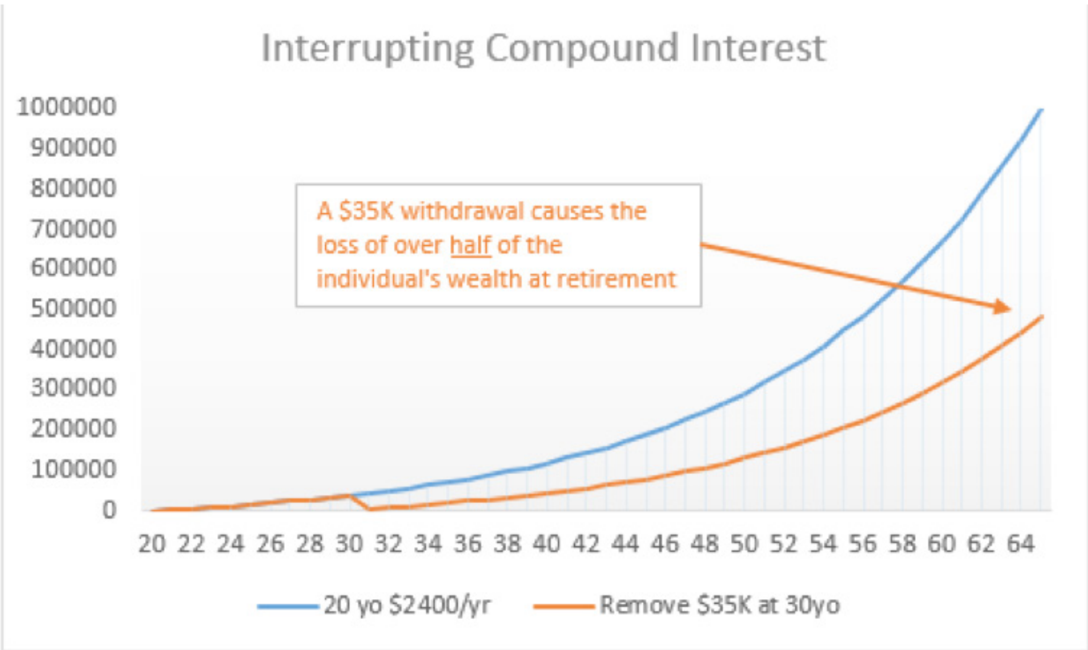


Figure 12 - Impact of a $35K withdrawal or market loss on compounding wealth.

The Perpetual Wealth System - A Better Solution to Permanent Family Wealth.

The Perpetual Wealth System combines a uniquely designed participating insurance policy as the primary, tax-advantaged savings and funding vehicle for your family. As I illustrate in Figure 13, this system serves as your ultra-safe wealth foundation that funds all of life's investments and major purchases; it is designed to store and grow your dollars efficiently from the launch of your career, during your prime earning years and throughout retirement, and then increase and pass on what's left as a tax-free legacy to family, charities and other worthy causes.

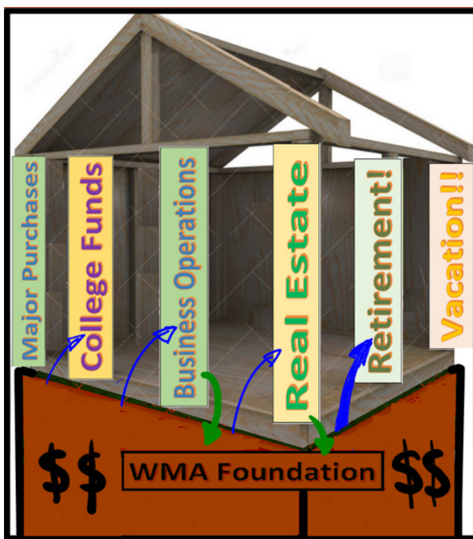


Figure 13 - The Wealth Maximization Account (WMA) serves as a Wealth Foundation, and is leveraged to enable recapturing interest paid for major purchases, investments and business commitments.

Three methods to fund major purchases and investments – Currency, Credit and your Personal Bank.

People have learned the practice of exchanging currency (cash, debit cards, gold, etc.) for goods and services at very young ages for centuries. Today, by the age of 10, my children and all of their friends were familiar and comfortable with life in a cashless society where adults paid for most items on credit. Many adults are familiar with and thankfully leery of racking up substantial high interest credit card debts. Educators for mass audiences like Dave Ramsey do a true service to thousands by getting them away from high interest debt and on a cash-only system. However, these mass educators do not help families get on a path to wealth, just one that avoids bankruptcy. It has been my experience that individuals who have completed these programs, or that have created a credit-free lifestyle on their own, do not appreciate that they are permanently stuck at JOB, a condition that Robert Kiyosaki says is an acronym for 'Just Over Broke;' they do not appreciate the opportunity cost of using cash.

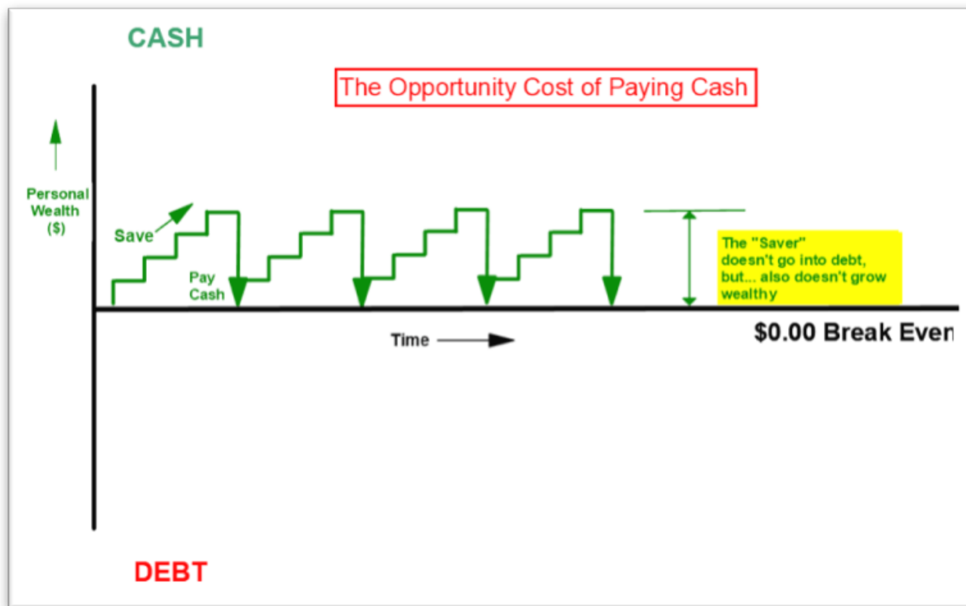


Figure 14 - Graph of an individual's savings account as they save for major purchases and pay for them in cash throughout life.

Opportunity Cost of using cash. Figure 14 shows the cycle of saving for major purchases and then emptying the account to make the purchase and starting to save again. The opportunity cost in this situation is that the individual gives up the interest that could have been earned if the money were not spent (the account not emptied). In today's near zero interest rate savings accounts, that growth is negligible, but if the money were instead positioned in an account that earned 5% or higher, tax-deferred, the cost of not leaving the money in to grow throughout one's lifetime would be significant.

Consumer Debt – The ultimate wealth destroyer. I believe that most people carrying large consumer debts do not appreciate the spiraling situation they are in. Many clients that I've worked with, especially those with high W-2 incomes like doctors and lawyers, are completely comfortable carrying credit card and high interest private student loan debts totaling their annual salary or more. I've had clients tell me that financing a large purchase that they could not pay off immediately was the same as saving and then paying cash, you just don't have to go through the delayed gratification. Figure 15 is this perspective expressed on a graph.

If credit cards had permanent interest rates at 0% (and neglecting inflation), this graph would be true; after your purchase, you could make the same payment (shown in black) as the person who saved each year to be able to buy the item (shown in green). However, with interest rates of most credit cards at 20%, the total debt grows exponentially and much faster than most realize.

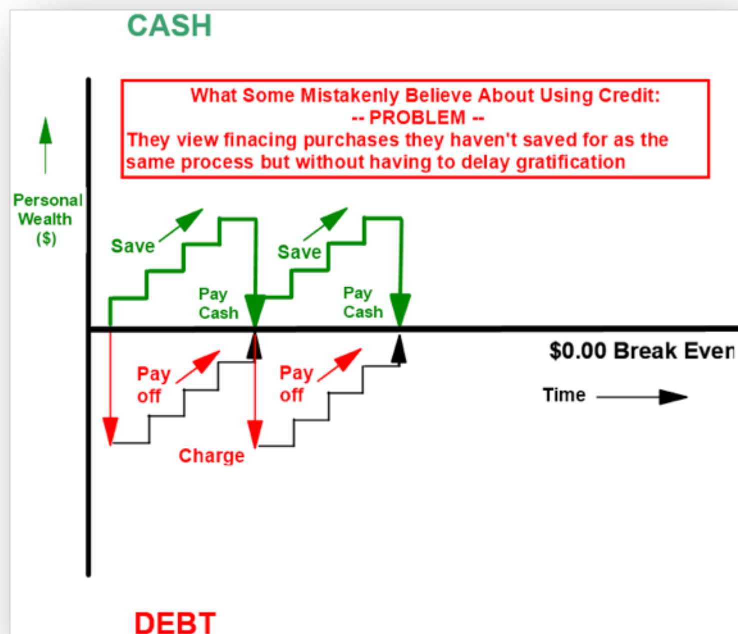


Figure 15 – Purchasing items on credit with a fictitious, permanently zero interest rate.

Figure 16 illustrates the impact of compounding consumer debt on the long term wealth of individuals that continually operate under its power. Individuals that live in denial on this path are the ones that Dave Ramsey's Financial Peace University provides a great service, but for those that understand they are on an unsustainable path and desire change, Paradigm Life has a much better solution than simply becoming a 'Saver.'

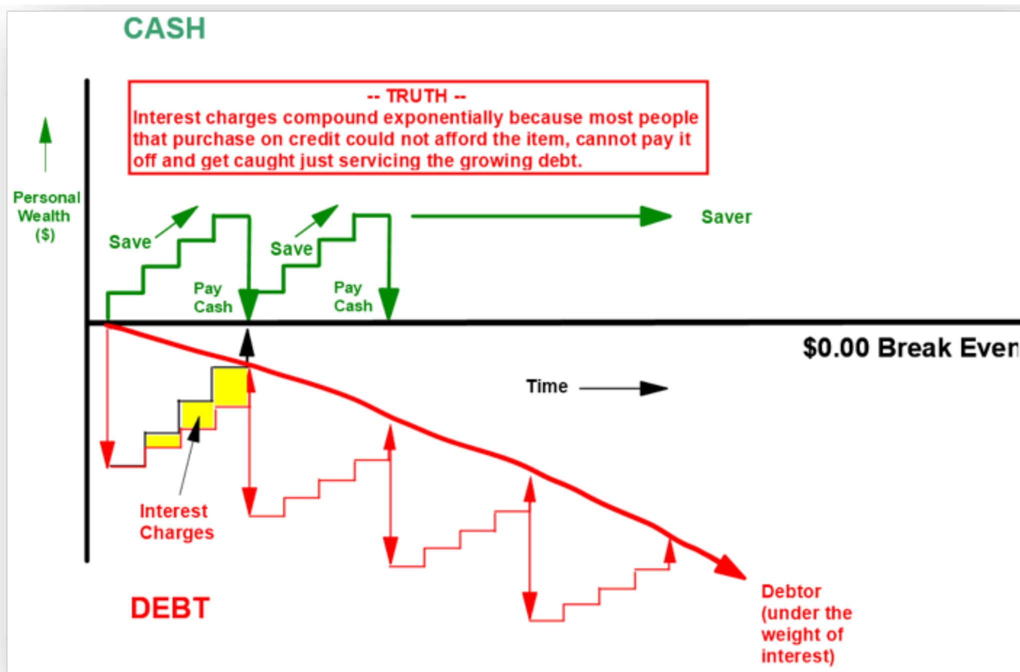


Figure 16 - The compounding destructive effect of high interest debt on personal financial wealth.

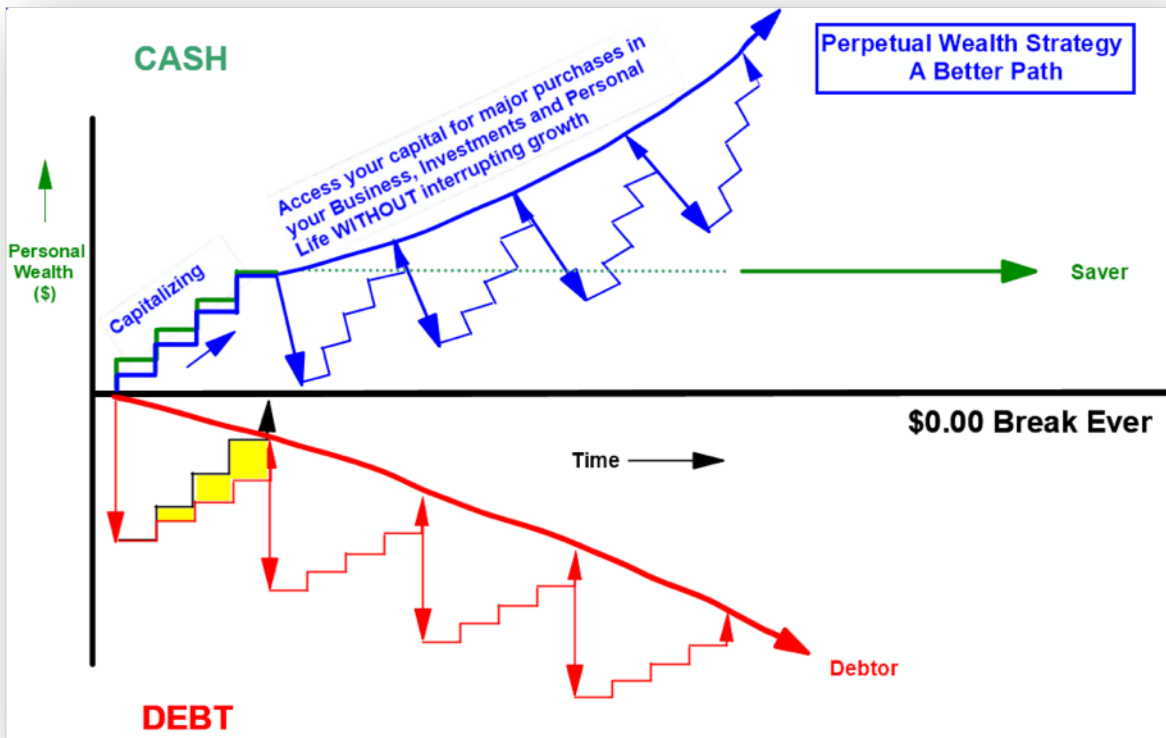


Figure 17 – The impact of a Perpetual Wealth Strategy on family wealth achieved by recovering interest paid to others (Debtor) and avoiding the opportunity cost of using cash (Saver).

Accessing Capital without withdrawing it – Staying on the compound interest curve.

Figure 17 illustrates Paradigm Life's solution to creating lasting family wealth. This approach, described in the next section, enables full, tax free access to your wealth while it continues to grow with guaranteed interest and dividends, provide life insurance, and many additional benefits.

You might have recognized that the Blue curve in Figure 17 acts a lot like the compound interest curve we discussed in Figure 11. Well, you are right, it is that curve; the cash value earns guaranteed interest and dividends allowing it to achieve compounded growth while remaining 100% liquid.

To create a WMA, the traditional whole life policy, or 'Base' policy shown in Blue, is substantially reduced and supplemented with a rider that enables accelerated cash growth.

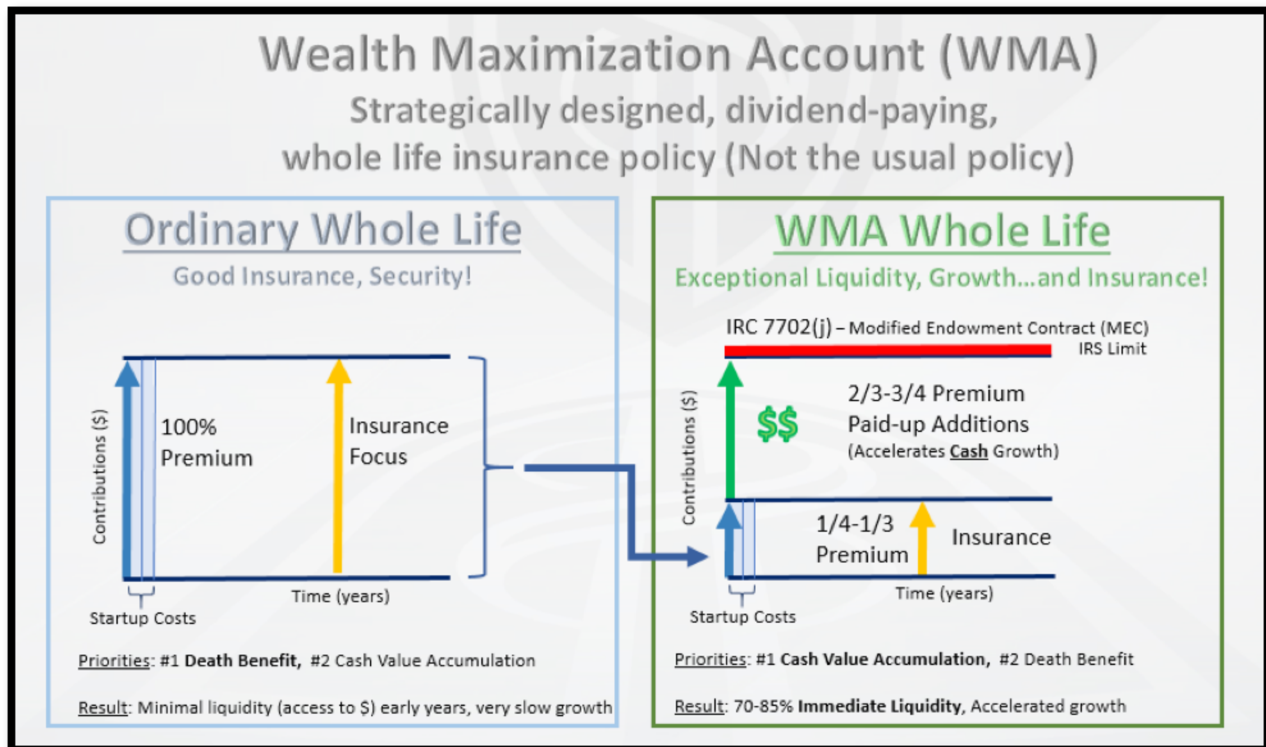


Figure 18 - Wealth Maximization Account

WMAs are Whole Life Insurance. They are vastly different from ordinary Base-only whole life policies as Figure 18 demonstrates, but they are life insurance and that is an aspect of this system that causes a few individuals to discount this tried and true approach to wealth that has worked without fail for centuries. Let's take a moment to put this proven financial asset into perspective:

Perspective and History of Whole Life Insurance in America

A Common Household Financial Tool in American History

- At the beginning of the 20th Century, Life Insurers represented the largest and most powerful financial institutions in America.

- In 1945 as WWII was concluding, there were 149 million life insurance policies in force, representing four policies for every household; the US had more life insurance policies in force than people.

- Today there is just over one policy per household, under one policy for every two people. This trend over the past 70 years is evidence of Wall Street's powerful marketing blitz.

- Life insurance ownership in the US is on the rise as people flee to safe instruments following the 2009 market crash and recession, consistent with the great depression, WWII and the Vietnam conflict.

Company Safety and Strength – Only 20 out of 350 life insurance companies (5.7 percent) became insolvent during the Great Depression. Virtually all of the policies were taken over by other insurers preventing any losses. Compare this to over 4000 bank failures (15.5 percent) resulting in $1.3B in losses to customer accounts. This pattern repeated during the mortgage crisis of 2008-2009.

Examples of use - You'll be surprised to see many famously successful individuals (including multiple US presidents) used this type of account to build wealth:

- **Leland Stanford**, founder of Stanford University and The Foster Family of Farms, used the financing feature in 1939 to borrow today's equivalent of $50,000 to start the business.

- **Ray Croc** used the financing feature from two accounts to help start McDonald's.

- **Doris Christopher** of The Pampered Chef also used the financing feature to start her company.

- **Walt Disney**, one of the most famous cases, leveraged his account to start Disney World.

- Many U.S. Presidents also used this account to build wealth, including: **James Garfield, Chester Arthur, Benjamin Harrison, William McKinley, Warren Harding, Calvin Coolidge, Herbert Hoover, Franklin D. Roosevelt, Richard Nixon** and **John F Kennedy.**

- **John McCain** financed his initial campaign for President against Barrack Obama using this financing feature.

- Athletes and celebrities relied on this unique asset as well, including: **Jackie Robinson, Babe Ruth, Helen Keller, Susan B Anthony, Cecil B de Mille** and **Nat King Cole.**

In their personal memoirs, many of these well-known people disclosed that they had these accounts. Why wasn't this information public? Because the policies are private accounts, and are NOT part of public record when the holder is alive.

So why isn't this account mainstream today? For the wealthy it is. Even for the middle class, Whole Life Insurance (WLI) remains highly utilized and the most held of any type of life insurance. Across America, WLI represents 44% of all policies, nearly $10 trillion of coverage. But it is quietly in place; Wall Street has drowned out everything but its own financial agenda.

Why use WLI to store family wealth? Let's look to major banks and corporations for the answer:

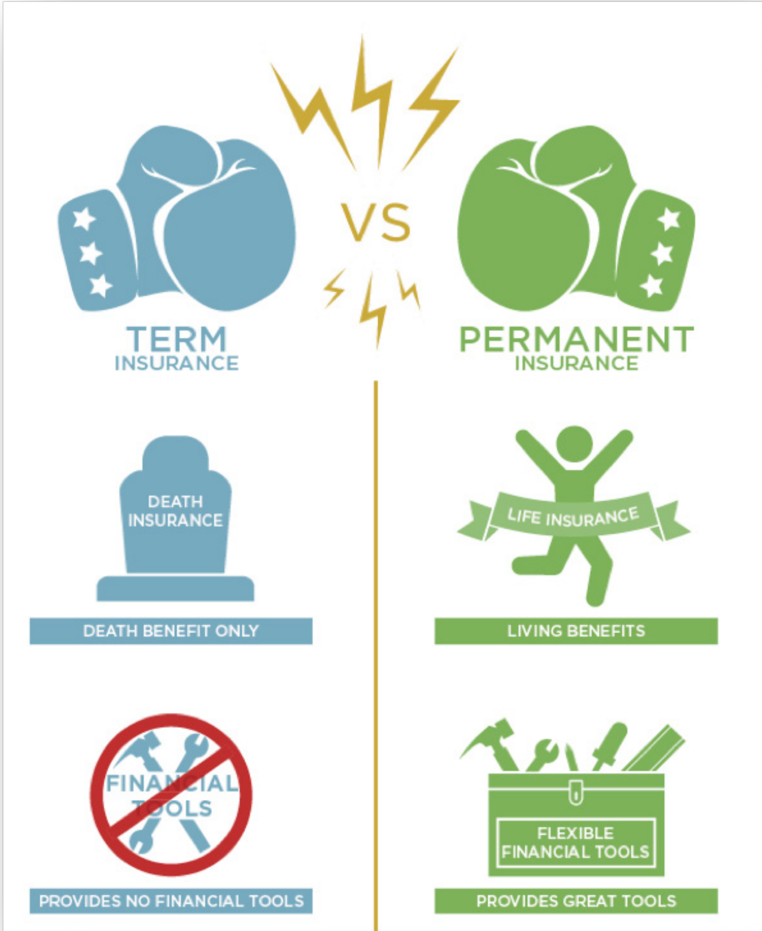
Because banks and corporations realize it is important to be protected and well rounded, they use **permanent life insurance.** It's a diversification method that's becoming even more common among these billion/trillion dollar companies in recent years. This method provides significant benefits to the bottom-line of banks and corporations, and has proven to be profitable even in difficult times. Public fortune 100 and 500 companies hold a large portion of their liquid capital in one of the oldest financial products in the country, and most people don't even realize this financial product exists.

Over 3,800 banking institutions currently use this strategy. From 2006 to 2015, Wells Fargo increased this private asset from $3.4B to $18.05B. General Electric was the first current-era big business to implement such a strategy and Wal-Mart has since followed suit. The great news is that this proven, enduring asset is available individuals and investors as well.

Permanent life insurance is one of the most misunderstood financial products, yet has sparked the attention of pop-culture financial media for significant reasons. Why do so many corporations and banks value this asset enough that they hold tens of billions of dollars of it? (They would likely invest even more if they could — the FDIC regulates a cap on the amount of insurance they are allowed to hold.)

Banks and corporations recognize that life insurance is not necessarily "death insurance" but truly life insurance. They know how to use life insurance for its lucrative living benefits. This is not usually how life insurance is presented and sold to individuals, which is why there's such a disconnect about the topic.

Living Benefits of Life Insurance. You can enhance the benefits you receive by learning how to use permanent life insurance wisely — taking advantage of the most valuable investment traits: Liquidity, Safety, Tax Benefits, and Rate of Return.



LIQUIDITY

It turns out that there's another big reason why banks and corporations purchase tens of billions of dollars in permanent life insurance — keeping your money liquid and accessible as cash is an advantage. With careful modification, banks, corporations, and individuals can access all of the premiums they've paid into the policy as cash value. In these cases, if you are the policy owner, the cash value is 100% liquid to you.

But buyer beware — Without the modification to maximize cash value I discussed earlier (see Figure 18), a permanent life insurance policy can take up to 16 years before all of the paid premiums are available as cash value. This detail is what gives permanent life insurance a bad reputation for not being a viable and affordable savings vehicle. Only a few qualified people in the country know how to properly apply the modification to enhance the cash value.

SAFETY

Your money can't work for you if it isn't protected. Sometimes market forces work against you, and we've learned how hard it is to get out of the way of a falling market; in fact, it can be darn-near impossible.

Permanent life insurance offers serious safety. Because the insurance industry is much more stringent with regulation and self-regulation than even the banking industry, it beats even the safety of, say, a law firm's trust account. The cash value that you build up is not directly invested in the stock market — which allows you to win the rewards of a strong market without the risk during a down market.

TAX BENEFITS

We've all heard, "Nothing is certain but death and taxes." However, that isn't exactly true when you're talking about permanent life insurance. The rate of return you receive from the cash value and the subsequent dividend payment accumulates on a tax-deferred basis, and if done correctly can be tax free!

RATE OF RETURN

Can you imagine a life insurance option with the ability to earn a rate of return on the cash value you have accumulated? It's one of the least known attributes of permanent life insurance — and as the policy owner, you're in control.

How does it work? Mutual insurance companies are not owned by shareholders, but by the policy owners. At the end of the year, the profits come directly back to you — the policy holder. It's an unbelievably simple way to earn dividends while retaining liquidity with a consistent and guaranteed growth.

Added Bonus - There is another feature that separates this financial vehicle from any other which is the fact that there is a legacy value. The Legacy Value pays out tax-free upon the passing of the person who purchased the account. This Legacy Value can be extremely helpful for real estate investors and owners of operating businesses who would like their Estate to own the business, but maybe not the debt they used to acquire it. The Legacy Value can also act as the sum that transfers into a trust that can be used by your inheritors to go to college, go on family retreats, start a business, start a FAMILY BANK or invest in additional passive income businesses and real estate.

BUSINESS USES OF A WEALTH MAXIMIZATION ACCOUNT

Business owners are always in need of capital and with that capital comes two distinct costs: 1) either the capital is borrowed from a bank that charges you interest, or 2) the capital is spent in cash which eliminates the money's additional earning potential, referred to as the lost opportunity cost of using cash. What if you could solve both of these problems? It is possible to eliminate interest paid to others while increasing your money's additional earning power. The long-term consequences of paying interest to banks can be catastrophic and has led millions of individuals and companies to bankruptcy. However, the interest rate that could have been earned on cash used for buying equipment, inventory, homes, cars, vacations, paying for education, etc., amounts to hundreds of thousands of dollars, even millions, for the business owners that we work with.

You can avoid having to use credit cards or bank loans for major purchases. More powerfully, you can recoup the entire opportunity cost associated with spending money rather than investing it. This alone could save your business millions of dollars over the course of your lifetime!

A few examples of how you can use the Perpetual Wealth System:

- Equipment Purchases
- Credit Card Payments
- Continuing Education
- Business Expansion
- Continuing Education
- Inventory
- Car Loans
- Business Loans

Furthermore, in a Wealth Maximization Account (WMA) your cash value serves as a valuable business capital reserve to store profits while earning tax-deferred or tax-free growth.

For a business owner, the Perpetual Wealth System for Business enables use of a WMA as the primary funding vehicle for employer retirement plans. The ownership of the plan can be the business, as a key person structure, or the individual business owner, or both. The policy is structured through a mutual insurance company, who guarantees financing against the accumulated balance at any time for anything. This financing can be used for business purchases such as equipment, technology and marketing without having to rely on banks.

Employee plans can be structured through IRS code 162, giving the business owner deductions similar to the 401(k) without having to provide the benefit to 100% of the employees, as required by 401(k)'s. In addition, the structure of a Cash Bonus plan for other employees has been shown to create incentive for employees to remain committed to their employer. These plans don't accumulate a percentage for the employee, but can be held in the employer account and earn interest and dividends for them, as well as provide capital for the guaranteed financing feature mentioned above. The Perpetual Wealth System for Business also accommodates for buy-sell agreement funding, stock redemption funding, and key person insurance funding. When retirement day occurs, part or all of the accounts are converted to the Perpetual Wealth System Legacy structure which provides a paycheck for life, guaranteed by highly rated insurance companies.

Summary - There are over 12 ways to design the Perpetual Wealth System for Business to accommodate the ideal incentive plan for business owners, executives, and employees.

PASSIVE INCOME

The Ultimate Goal. We all have to replace 'going to work to earn a paycheck' with passive income eventually, unless it's your goal to work full time until your last day. Some very fortunate among us truly enjoy the work they do, and perhaps that is exactly their plan! This is not a paragraph intended to motivate you & tell you to "find what you love to do, and figure out how to get paid for it". Although, I do indeed think that's a great philosophy and I'm attempting to live by it! I'm simply pointing out that as an individual ages and their health declines, they will need to live off either a stored nest egg of cash, passive income, or both. Social security will help bridge the gap, but given that future retirees have the ability to live 40 or more years in retirement, neither social security nor their nest egg are likely to survive; refer back to Dr. Pfau's work shown in Figure 5.t

Financial Security is about Cash Flow, not Net Worth. The traditional retirement mantra is to build a high enough net worth and spend it down slowly, hopefully slowly enough that you don't run out. Remember the commercials by ING where the actors carried around numbers and asked "Do you know your number?" or Prudential's commercials with the building sized domino pieces and people pulling yellow and blue ribbons across a field? The focus is on growing the nest egg, but none of these approaches explain how to get safely back 'down the mountain' that we discussed in Figure 4. At Paradigm Life, we focus on guaranteed income and options for multiple streams of income over net worth when planning for your working years and especially in retirement.

Consider an example where two retired couples are next door neighbors in Orange County, CA, living in identical homes valued at $500,000 when they retire in 2008. At retirement, both couples elected to receive $1M in after-tax distribution from their California pension system rather than annuitize for annual or monthly payments – quite possibly a huge mistake, but both felt they could do better with their own plan. Sam and Judy used $350,000 to pay off their house, and rolled the other $650,000 into a Roth IRA – their income would come from Social Security and drawing the interest off their IRA.

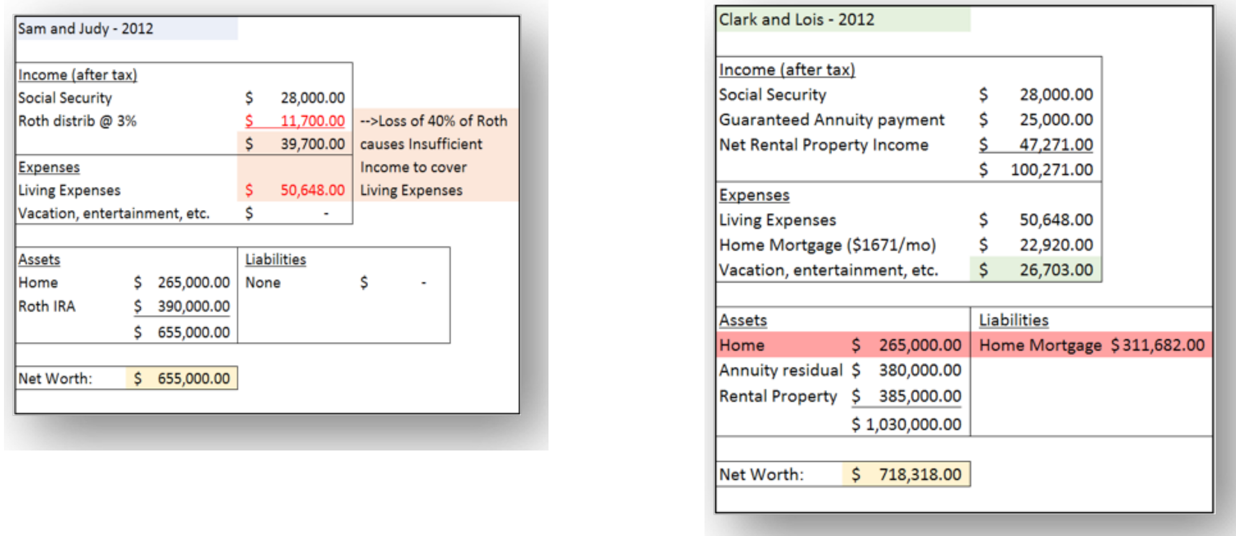
Clark and Lois used $500,000 to fund a Single Premium Immediate Annuity with guaranteed return of premium, and used the remainder to purchase four small rental homes in the Midwest. I chose these dates and locations so the example is based on recent and actual economic trends, and to highlight the risk of having equity in cyclical real estate markets and your wealth exposed to market corrections in retirement. Figure 19 is a summary of their finances at the beginning of retirement:

Sam and Judy - 2008			
Income (after tax)			
Social Security	$ 28,000.00		
Roth distrib @ 3%	$ 19,500.00		
	$ 47,500.00		
Expenses			
Living Expenses	$ 45,000.00		
Vacation, entertainment, etc.	$ 2,500.00		
Assets		**Liabilities**	
Home	$ 500,000.00	None	$ -
Roth IRA	$ 650,000.00		
	$ 1,150,000.00		
Net Worth:	$ 1,150,000.00		

Clark and Lois - 2008			
Income (after tax)			
Social Security	$ 28,000.00		
Guaranteed Annuity payment	$ 25,000.00		
Net Rental Property Income	$ 42,000.00		
	$ 95,000.00		
Expenses			
Living Expenses	$ 45,000.00		
Home Mortgage ($1910/mo)	$ 22,920.00		
Vacation, entertainment, etc.	$ 27,080.00		
Assets		**Liabilities**	
Home	$ 500,000.00	Home Mortgage	$ 350,000.00
Rental Property	$ 500,000.00		
Annuity residual	$ 475,000.00		
	$ 1,475,000.00		
Net Worth:	$ 1,125,000.00		

Figure 19 - Income Statement and Balance Sheet, Beginning of Retirement: Comparison of traditional 'Asset Spend-Down' versus 'Passive Income' approaches.

Now let's check in on them four years later, in 2012. Figure 20 illustrates the impact: Their CA home value has dropped 47%, Midwest rental properties dropped 23%, and their IRA lost 40%. The rental property income and personal expenses continued to rise at 3%. Social Security remained flat.



Sam and Judy - 2012		
Income (after tax)		
Social Security	$ 28,000.00	
Roth distrib @ 3%	$ 11,700.00	-->Loss of 40% of Roth
	$ 39,700.00	causes Insufficient
Expenses		Income to cover
Living Expenses	$ 50,648.00	Living Expenses
Vacation, entertainment, etc.	$ -	

Assets		Liabilities	
Home	$ 265,000.00	None	$ -
Roth IRA	$ 390,000.00		
	$ 655,000.00		

Net Worth:	$ 655,000.00

Clark and Lois - 2012	
Income (after tax)	
Social Security	$ 28,000.00
Guaranteed Annuity payment	$ 25,000.00
Net Rental Property Income	$ 47,271.00
	$ 100,271.00
Expenses	
Living Expenses	$ 50,648.00
Home Mortgage ($1671/mo)	$ 22,920.00
Vacation, entertainment, etc.	$ 26,703.00

Assets		Liabilities	
Home	$ 265,000.00	Home Mortgage	$ 311,682.00
Annuity residual	$ 380,000.00		
Rental Property	$ 385,000.00		
	$ 1,030,000.00		

Net Worth:	$ 718,318.00

Figure 20 - Income Statement and Balance Sheet, Following a Recession: Comparison of traditional 'Asset Spend-Down' versus 'Passive Income' approaches.

Sam and Judy, the couple that went the more traditional route of paying off their mortgage and deriving income from 'spending down their nest egg' are in serious trouble. They have cancelled all vacations and other discretionary expenses and are $11,000 short from being able to cover household expenses. They will have to withdraw above their planned rate from the Roth account and risk running out of money later in retirement.

Clark and Lois are essentially unaffected. Their income went up during the recession, a result of rental increases that occurred across the country from 2008-2012, and kept up with their increased food, clothing and other living expense hikes. Note that their home value has lowered to less than their mortgage balance, a situation referred to as being "under water," but does that actually matter? No. Sam and Judy derive income from their net worth (their Roth IRA), but Clark and Lois' income is not tied to lump sum assets; the value of their home and the rental properties could fall to $100,000 combined, and as long as it did not impact rental income, it would not affect them.

Let's remember where we began: Cash Flow, not Net Worth, determines financial security. At Paradigm Life, we help clients avoid what happened to Sam and Judy by adding guarantees and the capability to take much larger annual withdrawals without risking running out of money. If they are interested in passive income sources like rental real estate, we help them get started and show them how to magnify their portfolio's performance with their Wealth Maximization Account. If they feel more comfortable with and have more expertise in traditional market-based investments, we help them achieve 100% or greater increases in withdrawal rates than Sam and Judy could take and with far less risk of running out of money.

Types of Passive Income

Annuities. There are many types, fixed and variable; immediate and deferred; single pay and long term pay; pre-tax and after-tax, and unfortunately many come with a tremendous amount of complexity. But a pure annuity is a very simple financial instrument; it is longevity insurance, or protection from outliving your money. Corporate and government pension systems use the most straightforward of these instruments, the Immediate Annuity, to meet retirement pay commitments to millions of previous employees every year.

Lending money and Holding Notes. Whether you purchase a mortgage note at auction, sell a property to someone and act as lender, called carrying back the note, or simply lend money to someone, you have traded cash (or the opportunity to receive cash) for a series of checks, a stream of cash flow income. Lending and holding notes can be complex and bring risk, but if done after gaining expertise can provide strong returns on your investment and a dependable income stream.

Royalties. Developing or purchasing the rights to intellectual property that others will pay you to gain access to, such as movies, music and books, can provide strong returns and income for many years. See more at royaltyexchange.com.

Income Property. In my opinion, I've saved the best for the last. I've devoted the past several years to gaining expertise in owning and operating rental real estate for passive income. There simply is no other investment that provides the level of consistent returns and tax advantaged cash flow as income property. I owe thanks for my introduction to the concept and early education to Robert Kiyosaki and the Rich Dad organization, but I have learned and benefited the most from working with Jason Hartman and his team at Platinum Properties. Jason taught me the details behind the acronym I.D.E.A.L. often used in the phrase "Income Property is the IDEAL investment." The acronym organizes the many benefits of this investment and stands for: Income (rental cash flow), Depreciation (tax deduction), Equity (tenant pays down your mortgage, increasing the equity in your property), Appreciation (holding hard assets that go up in value because of inflation), and Leverage (the ability to get 100% of the benefits with 20% or less of the funds being yours). Read a full description of IDEAL in an excerpt from Wikibooks provided in Appendix A.

I made many costly mistakes in my early investing days, all of which can be attributed to acting before I had adequate expertise, and working with individuals that lacked integrity. Today, I will pass on deals that look on paper to be great opportunities if I don't know without a doubt that the individuals involved are ethical and will act with integrity; a great mentor of mine often says "It is far better to do an ok deal with a good person than to do a good deal with a bad person." Jason also follows the same approach toward education that Patrick uses at Paradigm Life; provide vast, exceptional education resources for free. Jason has produced over 1000 podcasts, most on real estate and under the title 'The Creating Wealth' podcast, and offers many other resources. See more at jasonhartman.com.

Figure 21 is a simplified representation of how I merge the benefits of my Wealth Maximization Accounts and my income property portfolio. After obtaining a conventional Fannie Mae loan for 75%-80% of the purchase price, I borrow the down payment from the insurance company in the form of a completely unstructured loan; there is no qualification process, no repayment requirements, and it takes just a few minutes to put in place.

In doing so, I have increased the velocity of my money - I have my capital performing several vital jobs at once: Serving as collateral for a loan on a rental property that provides passive income and a host of other benefits; growing tax free with the annual crediting of guaranteed interest and dividends; providing a death benefit (insurance) to allow my family to pay off the real estate bank loans if necessary following my early death. Additionally, putting near 0% down by using other people's money both increases the investment returns and lowers my liability if ever sued (in most states). Having substantial equity in any asset, and especially one used by other people when you are not present, is not only inefficient but it makes your asset a target for fraudulent lawsuits. To quote Jason Hartman, when it comes to tenant occupied income properties, "the best insurance is a high loan balance." To find out more about how I invest in rental properties using my WMA, including an example showing the improved investment returns, go here to watch a short video I recorded called "Fundung Real Estate with OPM - Borrowing against a WMA". See - http://www.screencast.com/t/CBO6Rizz25Nd

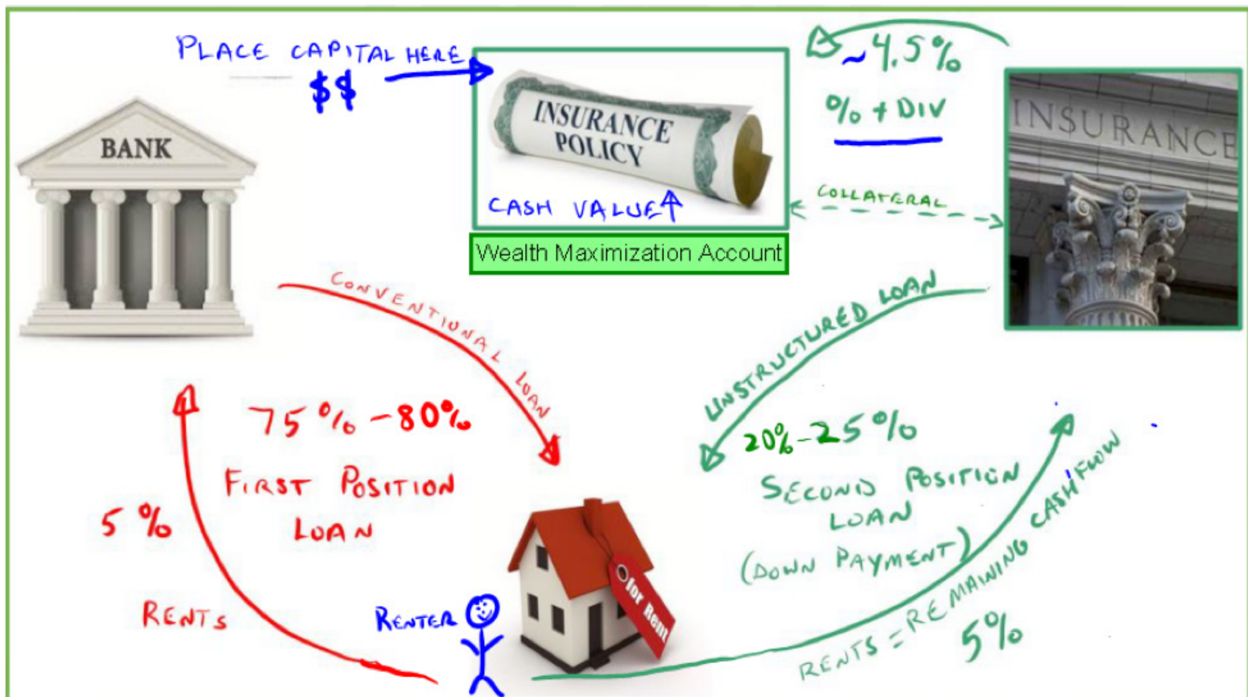


Figure 21 – Funding Income Producing Real Estate with Other People's Money Increases Returns and Reduces Risk.

Figures 22 and 23 provide a comparison of investment returns between funding the down payment with cash (Figure 22) and funding it with the Insurance Company's money with the WMA pledged as collateral but still achieving tax-advantaged growth with guaranteed interest and dividends (Figure 23). In each case, the house is sold at the end of 30 years without the use of a beneficial 1031 tax-deferred exchange, and all taxes are already removed from the profits shown (capital gains and recaptured depreciation) – I highly recommend making use of a tax-deferred exchange, but used this approach to go from all cash at the beginning to again all cash at 30 years. The cash down payment option of Figure 22 achieves $194/month in net cash flow and an annualized rate of return on $19,014 invested of 8.57%. Again, this is lower than the expected double-digit returns most achieve today, a result of giving back many of the tax advantages of real estate discussed in Appendix A.

Square Feet	1,129
Initial Market Value	$89,900
Purchase Price	$89,900
Downpayment	$22,475
Loan Origination Fees	$674
Depreciable Closing Costs	$4,495
Other Closing Costs and Fixup	$0
Initial Cash Invested	**$27,644**
Cost per Square Foot	$80
Monthly Rent per Square Foot	$0.84

Figure 22 – 8.57% Annual Return on $19,014 invested as a down payment with a conventional Fannie Mae loan.

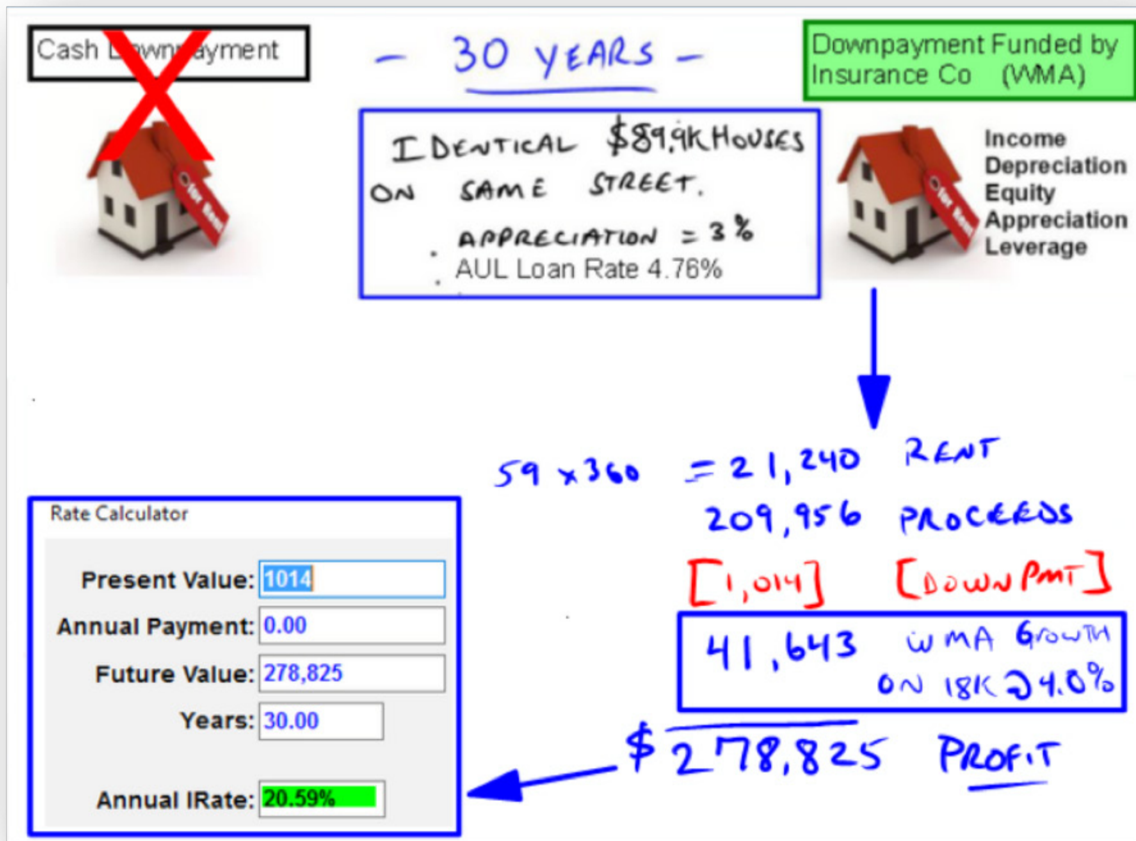


Figure 23 – 20.59% Annual Return on $1,014 invested as closing costs only with a conventional Fannie Mae loan and the down payment funded by an insurance company loan backed by a WMA.

The option that used an insurance company loan for the down payment, Figure 23, receives only $59/month in net cash flow but higher proceeds from paying the WMA loan beyond its 15yr payoff, $41,643 in guaranteed interest and dividend growth on the money that otherwise would have been dead equity in the property, and achieved an annualized rate of return on $1,014 invested of 20.59%. Beyond the financial improvement, this second option improves asset protection (less owner money in the property), brings valuable life insurance (already factored into the performance), and provides a more private and efficient place to store and grow the six months of reserve capital that the Fannie Mae lender will require. For a more detailed review of these two options, take a moment to watch the video I provided a link to earlier in this section.

Summary

Which passive income path is the right one to take? I've tried to build a case in this section for making rental real estate a substantial part if you have the time and interest to learn the process, but we have found in researching the truly successful that they don't rely on one source; **the wealthy employ multiple streams of cash flow.** Let's again look to banks and corporations for the answer. These organizations usually have several streams of cash flow, ranging from their core strategies to joint ventures, market-based investments and real estate holdings (industrial, commercial, and residential). They do this because it recession-proofs their income stream.

HOW BANKS & CORPORATIONS DIVERSIFY

Key Takeaway: In recent years, a smart diversification method has emerged among the wealthy. This strategy provides significant benefits to the bottom line of banks and corporations and has proven itself profitable for individuals, even during difficult times. What's at the core of the strategy? **Permanent Life Insurance.** Refer back to the WMA discussion in the previous section.

CONCLUSION

It is my highest goal in writing this short book that reading it has caused you to question the path you are on. I sincerely hope that you'll choose to avoid the traditional approach broadcast continuously from Wall Street and, sadly, blindly followed by most families. I started this journey in 2011 and combined it with rental property investments. The benefits of this pairing on my real estate holdings has been incredible, but the WMA and the broader Perpetual Wealth System are about far more than maximizing the efficiency of real estate and other passive income options. Go back and review my fairly crude drawing in Figure 13; your Wealth Maximization Account is the foundation under your family's wealth today, later in retirement, and for future generations to come.

If the ideas presented in these pages has caused you to question your current path, please reach out to me at gpinkerton@paradigmlife.net, or enter your information directly at my website at ParadigmLife.net/about/Gary-Pinkerton/ and my team will reach out to you.

I look forward to helping you understand these additional benefits as well:

• Death benefit circumvents probate

• Cash value is protected from creditors

• Ability to leverage both the cash value and the death benefit

• Pension maximization

• Smooth estate transfer

• The Family Banking Concept

• Supplemental or sole retirement vehicle

• Ideal charitable vehicle

You can implement the vehicle-of-choice used by banks and adopt their principles in leveraging cash value; the investment model that is proven to work so well.

Everyone knows the pain of paying interest. You also know that paying cash for everyday items like cars, vacations, furniture, and more takes your money out of circulation, and you aren't earning interest (opportunity cost of using cash). Some families we work with would have spent up to a million dollars raising their children if they hadn't used our model.

I hope you're starting to see the potential for one of the oldest of financial products to have viable application in our modern world—when you're leveraging all of the characteristics. Remember, there is no such thing as a risky investment; only a risky investor. What separates you from risky investors is your knowledge. We want to help you learn to use cash value similarly to how banks and corporations do, as an asset that you own and control.

It is truly an honor to have written these pages and exciting to think that it may make a difference for you or someone you know. Please feel free to pass this short book along to others you feel could benefit. If I can ever help you with the concepts in this book, real estate ownership, or anything else, please don't hesitate to ask. My best wishes to you and your future prosperity!

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APPENDIX A - REAL ESTATE - THE I.D.E.A.L. INVESTMENT

It has often been said that real estate is the I.D.E.A.L. investment. Each of the five letters in IDEAL stands for an advantage to real estate as an investment.

"I" stands for interest deduction. In the United States, the mortgage interest paid on the first and second residential homes are tax deductible. On the average, real estate is a good hedge against inflation because property values and the income from properties rise to keep pace with inflation. "I" could mean income. Successful real estate investments usually produce an income stream that typically increases over time. "D" stands for depreciation. The building on your land depreciates in book value each year and you can deduct this depreciation from your gross income. This is only true for investment property and not residential. This provides a tax shield. "E" is for equity buildup. You build equity through repayments of the principal or remaining balance of the loan(s) taken to purchase the property. This equity buildup is like money in the bank. As you amortize a mortgage, the value of your equity investment will steadily rise. In the case of income producing property, this amortization could mean that your tenants help you build your estate. "A" is for appreciation. Your property value goes up every year, hopefully. Appreciation can result from inflation or increases in demand for property or improvement to the property. As the income potential is increases, the price that the property can command in the marketplace rises. "L" is for leverage. When you buy a house you make a down payment, say, 10 percent and you borrow the balance, say, 90 percent. You get the benefit of all 100 percent even though you put up only 10 percent of your own money. You can maximize return with other people`s money (OPM). The use of mortgage and OPM means that you can use small amounts of cash to gain control of large investments and earn large returns on the cash invested.

Source: Wikibooks.

APPENDIX B - SUMMARY OF THE BASIC CONCEPT

(WEALTH MAXIMIZATION ACCOUNT - WMA)

You can implement the vehicle-of-choice used by banks and adopt their principles in leveraging cash value; the investment model that is proven to work so well.

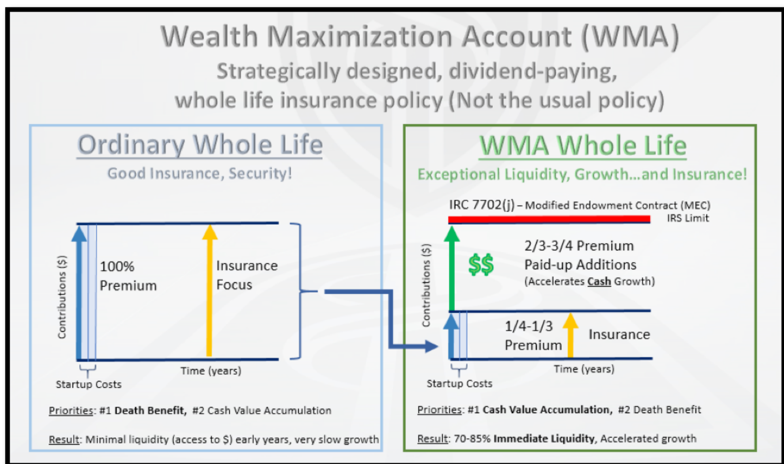

Figure 18 - Wealth

FIVE UNCONVENTIONAL IDEAS OR PRINCIPLES THAT HELP YOU BE YOUR OWN BANK:

1. Don't put all of your money in the stock market.

2. Put cash into your whole life policy and use it as a vehicle for your savings.

3. Borrow against your policy, i.e., yourself, for major life purchases.

4. Pay yourself back and recapture the interest.

5. Pass your money and your strategy to future generations through tax free death benefit and by teaching your family these concepts.