

WEALTHY
AND WISE

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A PRACTICAL GUIDE TO HELP YOU PROTECT YOUR
ASSETS, MAXIMIZE YOUR ESTATE, AND RETIRE HAPPY

Michael Jankowski

Like my own family, your family needs wealth protection planning.

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INTRODUCTION

Michael Jankowski

From a very young age, I grew up with a passion for investing. My father began his career as a welder for Caterpillar Tractor Company and, over a twenty-five-year career, worked his way into upper management. He wholeheartedly believed in Caterpillar's world-class products and saved by purchasing Caterpillar stock through the company's payroll deduction. Since my dad had most of his retirement money in Caterpillar stock, he followed their price closely. He taught me how to read and follow Caterpillar's stock price at the age of thirteen. The entire process of investing in the stock market amazed me, even at that young age.

My mom was a stay-at-home mother to my three siblings and me. We lived a modest yet comfortable life. My father instilled a strong work ethic as far back as I can remember and expected my siblings and me to acquire jobs at a young age. To this day, I carry on that same work ethic that I so respected seeing in my dad as a young child. My father maintained, if we didn't see ourselves at the same job for at least five years, it wasn't the career path for us. That was a sentiment I carried forward.

Curious to learn more about how the stock markets worked, I began to immerse myself in the complex world of finance and investments. At my young age, I found everything I read to be complex and confusing. I would go to the local library and scan the daily *Wall Street Journal*, finding myself reading an article several times to grasp only a small portion of the technical concepts the author was describing. I then came across

a book, *One Up on Wall Street* by Peter Lynch, who managed the Fidelity Magellan Fund and was best known for his straightforward back-to-the-basics style of investing. He managed to outperform the S&P 500 index by a wide margin over his tenure while taking on less risk.

In his book, he described his investment philosophy, ideas, and concepts in a manner that the average non-investor could comprehend. Furthermore, he made it enjoyable for the reader. His book inspired me to continue to pursue my quest for understanding the world of finance and investments.

In my first year of college, my father was killed in an automobile accident at the age of forty-five. I immediately recognized the devastating repercussions in failing to have a proper financial and estate plan in place. Of course this was a tragic and unexpected event, yet as much as my father planned and saved for the future, a financial and estate plan apparently took a backseat in his planning process. This lapse in judgment took a devastating toll on my mom and all of us.

Unfortunately Caterpillar stock was trading at a fifty-two-week low due to the economy being in a recession. My father had very little life insurance; nor did he have a will or trust. Since my mother was not named as a joint owner on most of the Caterpillar stock, she had to hire an attorney to go through the probate process in order to have the stock transferred into her name. We were obviously unprepared for his untimely death. I became propelled to follow my passion for investments and finance but apply my knowledge in a way that could help other families prepare for unintended financial consequences.

Fast-forward thirty years. I run my own wealth advisory firm, Wealth Planning Network, and have given hundreds of educational seminars sharing my knowledge and passion for proper financial and estate planning and tax reduction that people need to enable them to retire financially secure while protecting their heirs from those unintended financial consequences. As you read the book, remember that I am not just the author but a family member whose life was directly impacted by the negative experiences of the lack of wealth protection planning.

I dedicate this book to all my clients. I am truly blessed by the client relationships I have built over my twenty-five-year career. I am grateful to all my clients and their families who have entrusted me over the years to guide them through their own wealth protection planning. Thank you!

PART I

THE MARKETS AND YOUR RETIREMENT

Wealth is nothing more or less than a tool to do things with. It is like the fuel that runs the furnace or the belt that runs the wheel—only a means to an end.

HENRY FORD

CHAPTER 1

BRACING FOR IMPACT IN AN UNPREDICTABLE WORLD

Like most Americans, I watched in horror as the twin towers of the World Trade Center crumbled to the ground on September 11, 2001. When the first plane hit the North Tower, I thought it was just an accident. I think most people thought that perhaps some inexperienced pilot had lost control of a small plane. I dimly remembered hearing about a World War II bomber, lost in the fog over Manhattan, crashing into the Empire State Building. Maybe something like that had happened again.

Then the second jetliner hit the South Tower, and the slow realization washed over me that our nation was under attack. I don't think the enormity of what had happened registered on any of us at first. We were glued to our televisions that day, but none of us quite knew how to wrap our minds around the tragedy. The networks kept airing the events of the day over and over. Planes crashing, the buildings falling, and people running for their lives. The images made us heartsick, but we were unable to turn away. It was as if continually revisiting the shock and pain was a way to cope with it and heal from it.

That tragedy showed Americans just how quickly our world can change. One minute everything can be rolling right along, going according to plan, and the next minute the roof can cave in. Fortunately, it is within the American framework to rebound. It seems to be part of our national DNA to survive our tragedies, meet our challenges

head-on, learn from hard times, and emerge better and stronger for the experience.

But what happened on 9/11 was etched on our collective consciousness like a laser. We still see the posters and signs bearing the words “Never Forget,” a slogan that urges remembrance for that national tragedy. For those of us who watched those events unfold, I don’t think forgetting is an option.

Those of us who carefully observe the nation’s economy will likely never forget what happened to the stock market after 9/11. The New York Stock Exchange (NYSE), only a few blocks from Ground Zero, did not open on the day of the attacks. The Wall Street barons, to prevent a stock market meltdown, chose to suspend trading for the rest of the week. They announced that trading would not resume until Monday, September 17, the longest closure of the market since the Great Depression forced a cessation of trading in 1933.

When the market did reopen, the Dow Jones Industrial Average (DJIA) stock market index fell 684 points, or 7.1 percent, to 8920, its biggest-ever one-day point decline in history at that point. The market did recover somewhat from the panic selling, but then starting in March 2002, it lapsed into a steady decline with dramatic dips in July and September. Eventually the stock market bumped bottoms last reached in 1997 and 1998, a period now referred to as the recession of 2002–2003.

The mood of the investing public was nervous. There had been upswings and downturns in the past, but there was an uneasy feeling throughout the nation that this kind of volatility was out of the ordinary. Those feelings were justified. What has been described as “the lost decade” for American investors had begun.

In retrospect, the terrorist acts of 9/11 might have triggered a market crash, but it did not cause the subsequent recession. When the attack occurred, the US economy was already in a transition from an unsustainable rate of growth to what was hoped to be a more sustainable one. There had been rapid growth in the glory days of the 1990s. If you owned stocks in that decade, you remember how you could do no wrong. If you tossed a dart at the financial page, wherever the point landed, you could buy the stock and were sure to be a winner.

But then the dot-com bubble burst. Millions who were heavily invested in tech stocks lost fortunes. Industrial production began to decline in June 2000. Unemployment rose.

The US economy was already in trouble before the events of 9/11 took place. Looking back, it is clear that while Osama bin Laden and his band of fanatic extremists were plotting terror for America, the nation’s economy was contracting, and conditions were ripe for recession. As tragic as those events were, what happened on September 11, 2001, didn’t cause the recession that followed. It would have occurred anyway.

Corporate Disasters

Just as natural disasters leave ruined lives and devastation in their wake, corporate disasters can wreak financial havoc on investors’ lives. Like those sinkholes you read about in Florida that occasionally open up and swallow homes and cars, the financial ground you are standing on could appear firm one moment and crumble beneath your feet the next.

Take the Enron debacle, for example. The Houston-based energy giant, the darling of Wall Street in the 1990s, was once valued at \$90 billion and was the seventh-largest company in America. Corporate leaders weren’t happy just being the leader in the energy sector. They started to diversify into other areas, the Internet and, of all things, weather futures.

When their ventures started to turn sour, their accountants became creative and painted a rosy financial picture of Enron just to keep the share prices high. Hiding debt and inflating profits finally caused the house of cards to collapse, and Enron declared bankruptcy in 2001.

The tragedy was how many people were hurt. I’m not just talking about the jobs that were lost. Thousands of Enron employees had sunk their life savings into Enron stock, and their portfolios were suddenly worthless. When you hear the name Enron now, your mental picture is of greedy executives shredding documents and the tattered financial lives of those who had their trust betrayed.

On the heels of the Enron disaster came the bankruptcy in 2002 of telecommunications giant, WorldCom, which at one time boasted \$107 billion in assets. It made international news as the largest bankruptcy filing in American history to that point. Like Enron, WorldCom was also fond of “creative accounting,” posting questionable earnings to fool Wall Street after it began losing money to changing technology and competition. Company accountants inflated WorldCom assets by some \$12 billion. Investors lost millions, and corporate executives responsible for the fraud were arrested, tried, and sent to prison.

“Those who cannot learn from history are doomed to repeat it.” ~ George Santayana

The fall of Enron and then WorldCom was a nasty business that shook the confidence of American investors to the core and left them wondering if dishonesty and greed were par for the course among large national corporations.

The 2008 Market Crash

After 2003, Wall Street was quick to brush off the issues of years past, and the mood of American investors was almost euphoric. The memory of the 2000 Wall Street collapse had faded, and the dot-com bust was now considered just a bump in the road. Many felt as if the glory days of the 1990s were back again and the stock market would continue soaring heavenward as it had before. Dark clouds were gathering on the horizon, but few noticed them or gave them much thought.

¹As 2007 began, the DJIA cruised past 12,400 and was galloping along while some warned of a housing bubble. But the sound of hammers putting up houses and condos and the roar of the money waterfall that was funding it drowned out all those warnings. Mortgage lenders were passing out home loans to anyone they thought could make the payments. Construction companies were putting up houses on speculation, and home buyers were in a feeding frenzy to snap them up. The way the banks looked at it, property values would continue to increase.

¹ (Tully, Shawn (2006-05-05). “Welcome to the Dead Zone”. *Fortune*.)

There was no way they could lose. If someone defaulted on a loan, they repossessed a property that, in a few years, would be double what it was when it was constructed.

At the top of the food chain were the mega banks responsible for the money flow. These were the too-big-to-fail banks, many of which would be insolvent by the end of 2008. In August 2007, when the Federal Reserve began to notice a liquidity problem caused by the easy-money policies set by these lending institutions, the Fed began to take measures to shore them up by pumping money into the system. Some saw this as proof that the economy was on thin ice. Banks were taking on more risk, and the poison of subprime mortgage debt was slowly working its way into the mega banks. Banks were taking on more and more risk, and the poison of subprime mortgage debt was slowly working its way into the veins of financial institutions that were “too big to fail.”

A May 2006 *Fortune* magazine report on the housing bubble said, “The great housing bubble has finally started to deflate ...In many once-sizzling markets around the country, accounts of dropping list prices have replaced tales of waiting lists for unbuilt condos and bidding wars over humdrum three-bedroom colonials.”¹

²The small dominos began falling in 2007 when property values fell precipitously, and millions of homeowners found themselves owing considerably more for their houses than the houses were worth. In 2008, we watched the big dominos fall, as one bank after another began cracking up. Lehman Brothers, the fourth-largest investment bank in America, filed for the largest bankruptcy in US history. The venerable old Bear Stearns, known for making good business decisions for more than eight decades, spiraled from healthy to near insolvency in just seventy-two hours. The meltdown included other big names like Merrill Lynch, AIG, Freddie Mac, Fannie Mae, and Morgan Stanley. If the American economy were a car, all the idiot lights would have been blinking red.

In eight consecutive trading days in October, the DJIA would lose 2,399.47 points, or 22.11 percent. The following recession would be the longest and deepest in history and would drive the unemployment

² (Isidore, Chris (2011-06-09) “America’s Lost Trillions” CNN Money.)

rate up to 10 percent by October 2009. According to CNN Money, the Great Recession of 2008 lasted three years and cost Americans \$16.4 trillion.²

When I tell you the US national debt is near \$20 trillion and rising (at the time of this writing), what mental picture do you see? Sadly, most people shrug their shoulders. It's just too much to comprehend. If you take a trip to New York City and journey up the steel concrete canyons to the intersection of West 44th Street and Avenue of the Americas, you will see something that has become somewhat of a landmark, the Durst National Debt Clock.

It's about the size of a small billboard and has two running totals in the style of a digital odometer. One is the national debt; the other is "your family's share." The clock was the brainchild of New York real estate developer Seymour Durst, who wanted to publicize the country's runaway debt in 1989 when it was a mere \$3 trillion. Durst died in 1995 and did not live to see his clock chronicle the \$10 trillion milestone of 2008. When the debt exceeded \$10 trillion in 2008, his heirs, the keepers of the clock, had to add another digit just to keep up. They continue to maintain the clock.

If you'd like to see where we're at today, just visit www.usdebtclock.org, and you will see Durst's two original calculations and scores of others that are equally as disturbing. If you are like me, you can't stop looking at the numbers as they whiz like an automobile odometer out of control. It adds a kinetic feel to the statistics and makes you feel a bit vulnerable as a citizen of a wealthy country. There is no other way to put it. That is spending like a drunken sailor. Worse really. Even a drunken sailor stops spending once he is out of money.

America's national debt might seem abstract, like something far away from reality. But if left unchecked, those whizzing numbers will spell big trouble for the great middle class in the form of higher interest rates and a weaker economy.

Let me share an example with you. A young man inherited a little over \$110,000, and he decided to open a pizza restaurant. He leased a building and burned through the inheritance, buying ovens, tables, and chairs. He had a superb credit rating at the time and began using his credit cards, just knowing that future profits would quickly pay off the

credit card debt. He splashed the newspapers with advertising, printed up and distributed flyers and coupons, and even hired a sidewalk clown for opening day. By now he was using his credit cards to pay bills. His rationalized that it took money to make money and debt was a precursor to wealth.

Sadly his restaurant did not go over very well in the community. He made delicious pizzas, but his place was too far off the road. As he learned, poor location is a killer in the restaurant business. After a few months of borrowing from one credit card to pay the minimum payment on another, he closed up shop and went back to his old job. The credit card debt was now over \$100,000, and he couldn't earn enough to dig his way out. He had to declare personal bankruptcy, and he was forced to liquidate everything he owned.

He could have done things differently from the outset to protect his family and himself from the fallout of a business failure. That's true. But the point is, debt, even the debt of a country that can print its own money, will eventually be paid. Many people who watch the economic scene are worried about their government. When will politicians stop maxing out the nation's credit cards?

If you max out your credit cards, you can keep the spending spree going as long as you can come up with the money to make the minimum monthly payments. When you start to miss those, the creditors lose faith in you, and the collection phone calls start. Uncle Sam's creditors are spread throughout the globe.

At the time this book is being written, America relies on foreign investment to fund more than half of its debt. That's shocking to the conservative mind, but so far there is enough international appetite for American debt to keep the party going. But even the hint that the largest debtor nation in the world would not be able to pay up would send the world economy into chaos. Economically speaking, the United States is *sui generis* (in a class by itself).

It's too big to be compared to any other debtor nation, like Greece or Italy. It is so large that it redefines the word "solvency." The dollar is the king of world currency. No other country in the world has the luxury of borrowing so easily as America does. But make no mistake: debts weaken a country.

Questions to which there is no answer remain:

- At what point will US Treasury bonds cease to be attractive?
- Will the debt pressure produce higher interest rates, a lowering of the value of the dollar, or both?
- How much higher will taxes be raised to whittle down the debt?
- What form will that taxation take?
- What impact will it have on economic growth?
- How will it affect our standard of living and the core values of our nation?

Those are questions of national interest. On a more personal level, one may ask questions like,

- With so much uncertainty in the air, how should I invest?
- Should I continue to view market-based investing in the same light?
- How can I guarantee that I will not run out of money after I retire?
- Are there any guarantees?
- What strategies could I employ that would give me solid financial footing in retirement so I can sleep?

These and other questions will be addressed in subsequent chapters.

CHAPTER 2

LEARNING MARKET RISK THE HARD WAY

In April 2007, John, age sixty-four and a half, woke up, yawned, and stretched before padding into the kitchen for his morning cup of coffee. It was a glorious spring morning. The sky was robin's egg blue, and the sun was already warming the day.

"Life is good," John thought to himself.

One of the reasons John was happy was that, after more than three decades on the job with the corporation he worked for, he was now only a few months away from retirement. He was looking forward to the big day when he said, "Good-bye, office. Hello, golf course."

John was feeling pretty good about things. He had been a good saver and investor. He had faithfully contributed to his company's 401(k) retirement plan and had ridden the roller coaster of the stock market through its ups and downs. Some years it was a nail-biter, but he held on for the recovery, which had always come. He had a little over \$1.5 million in his retirement account, and that was not chump change!

"Won't it be nice," said his wife Jenny, "to take our time, knowing we don't have to come back home until we want to."

They also looked forward to spending time with their three grandchildren as well, a luxury that, until now, time had not afforded them.