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the Register

Wade D. Pfau, Ph.D., RFC®
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Co-Editors of the *Journal of Personal Finance* Perfect Fit with Practical and Usable Results

IN THIS ISSUE

Active Investing Is Not Dead
Making Trusts Work For Most Clients
Do You Want To Dramatically Increase Your Appointment Conversion At Your Seminars?
Two Distinct Retirement Income Philosophies

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In This ISSUE Volume 18 No. 3

Cover Story

Register Cover:
Walt Woerheide and Wade D. Pfau

22 Co-Editors of the Journal of Personal Finance
Perfect Fit with Practical and Usable Results

Features

Active Investing Is Not Dead
8 By Cliff Walsh

More Than Money Wealth Management:
The Tallest Pygmy Syndrome
10 By Roey Diefendorf

Making Trusts Work For Most Clients
12 By Ronald Pullman

Do You Want To Dramatically Increase Your Appointment Conversion At Your Seminars?
26 By Jorge Villar

Participation: Try It — You'll Like It
29 By Michelle Blair

Two Distinct Retirement Income Philosophies
33 By Wade Pfau

To "Buy Low" You Must "Sell High" First
35 By Christopher Hill

Columns

Chairman's Desk
6 Harnessing the Strength of the IARFC Board
By H. Stephen Bailey

Marketing Unplugged
17 The Joy of Joining
By Bryce Sanders

Consumer Focus
19 Planning for and Caring for Your Parents
By Peter D'Arruda

International News
30 2017 Event and Educational Program Highlights

IARFC – Viewpoint
32 Current Events that Affect Your Practice
By Louise Fallica

Departments

1 IARFC Domestic and International Directors
3 New IARFC Members
3 Events Calendar
5 From the Editor

Events Calendar

2017

April

2017 Loren Dunton Memorial Award Presentation
April 24, 2017
Chantilly, VA

June

Board of Directors Phone Conference
June 20, 2017

Founder's Award
TBD, June 2017

July

IARFC Exhibits
Money Concepts Conference
July 9 – 13 2017
Charleston, SC

September

Board of Directors Phone Conference
September 12, 2017

November

IARFC Exhibits
Money Concepts Conference
November 13 – 16, 2017
Hollywood, FL

September

Board of Directors Phone Conference
December 12, 2017

2018

IARFC Conference & National Financial Plan Competition
April 17 – 19, 2018
Biltmore Estate, Asheville, NC

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Samuel J. Dixon, RFC®, SC
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Liza M. Perlow, RFC®, FL
Theodore Schmidt, RFC®, NC
William C. Splawn, RFC®, TX
Shawn R. Stone, RFC®, TX

International Members

Malaysia	5
Singapore	1

Member Referrer Recognition

Barry L. Dayley, RFC®
Peter S. Denision, RFC®
Christopher J. Dixon, RFC®
Samuel J. Dixon, RFC®
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Patrick F. Masterson, RFC®

Member Referrer Recognition

Christopher J. Dixon, RFC®
Patrick F. Masterson, RFC®

Christopher J. Dixon, RFC®

Patrick F. Masterson, RFC®

Members In the News

Members In the News. Keep us informed on your recent accomplishments. Have you added staff, certifications, seminars, celebrated an anniversary in the business? Send a brief description and a print-quality photo when available to editor@iarfc.org.

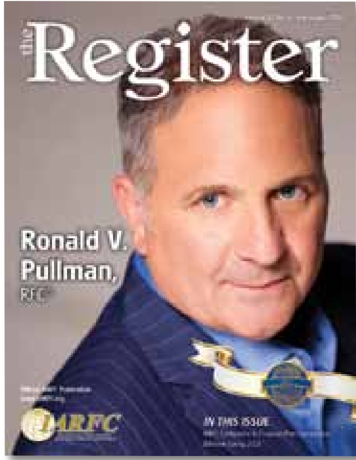
We are pleased to announce that Ric Edelman, RFC® of Edelman Financial Services as the 2017 recipient of the Loren Dunton Memorial Award, was honored at a private family and friends event in Chantilly, VA.

The Loren Dunton Memorial Award honors a person who has made a substantial contribution to the financial services profession and/or the financial interest of the public.

Our Board of Directors concluded another successful annual Board Meeting in Charlotte, NC on March 14th. The agenda for moving forward in 2017 will be an aggressive membership drive, final application to the NCCA for its MRFC credential and a dedicated strengthening of connection to the International Chapters.

Board Directors in attendance included: Chairman H. Stephen Bailey Charlotte, NC; Vice Chairman Nicholas A. Royer, Maitland, FL; Treasurer Jon M. Rogers, Greenville, SC; President Peter J. D'Arruda, Apex, NC; Secretary Michelle K. Blair, Farmingville, NY; Isabel Cooper, Ashburn, VA; James B. Moss, Indianapolis, IN; Rick B. Stanzione, Washington Terrace, UT; Mayo M. Woodward, Birmingham, AL.

From the EDITOR



You're a member of the IARFC, so you're obviously doing a lot of things right. But no matter where you are in your career, there's always something that needs to be done.

Through the years the IARFC has expressed two things that move consultants forward Continuing education and practice management. As the IARFC focuses on practice management as one of its strongest points, we offer and accept practice management as part of your continuing education component in renewing your designation.

To help you out the theme in the next issue of the *Register* is continuing education. So get ready for the next issue with our cover person, Ronald V. Pullman, RFC® member since 2011.

Wendy M. Kennedy, *Editor-in-Chief*

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From the
Chairman's Desk...

Strong Participation, Valuable Insights 2017 IARFC Annual Board Meeting

The 2017 annual in-person Board meeting is over and I am proud to say we came together as a cohesive, collective group ready to roll up our sleeves and get to work. Personally I was proud to host the Board Meeting at the Charlotte Motor Speedway right down the road from the offices of HB Financial. We have been members of the Speedway Club for many years and enjoy bringing clients and guests to enjoy a "Charlotte" experience.

The Speedway Club is a gallery of NASCAR history with outstanding conference facilities. It includes a restaurant that boasts a spectacular vista of the track – something that never fails to impress. Our group enjoyed a Speedway perk — an overall grounds tour which ended with a wheels-on trek around the oval.

Three times a year, the Board convenes via electronic means to discuss Association business. The value of meeting once a year "eyeball to eyeball" encourages more personal time between us. We shake hands, sit right across from each other and have the opportunity to relate before, during and after meetings. Through these full Board meetings, side meetings and casual discussions, I have come to appreciate the experience and astute viewpoints of our Directors. As we collectively meet, the brain power increases and the vision of where the IARFC is headed emerges.

I want to express my appreciation to all the Board Members and our IARFC Middletown Team. Much like the racing teams that produce winning results through working together, we are all learning how to relate efficiently and effectively. I thank all of you for making this event happen.

On To Our Goals

Our agenda for the day and a half meeting covered many important topics — however by the end of the sessions, three objectives were clear: increase membership, finish accreditation and establish stronger ties with our International Chapters.

Increasing membership is of course ALWAYS the core goal. What is an Association without its members? I am determined that we will greatly increase our numbers while I am in the position of Chairman. With our Board Directors, there were intense discussions on just how to do this. Many of the ideas are going to be adopted but it all came down to showing VALUE for the membership. Why should someone want to be part of the IARFC — what is the value? Getting that message out is our #1 priority.

Accreditation of course is coming soon. By the time my Chairman's Desk is published, we will have put in our application and be waiting for the results. The Board voted to increase funds for the Study Guide project with the material ready by the Fall. Marketing for the MRFC credential is underway and an aggressive campaign aimed at promoting the MRFC credential will be forthcoming.

Connecting to the International Community is a focus — establishing a stronger relationship with the Chair of each of the offshore Chapters. That will entail visits oversees and sitting down one-on-one with as many of the leaders as possible, or possibly meeting them in the U.S. as they come stateside. A stronger bond between these Chapters and the U.S. based Association is truly what we need to promote as we are the IARFC.

Beyond the Big Three

With the three projects above in the forefront, we still need to devote time to the supporting events and tasks. We have to change our By-Laws. Our system needs to be more conducive to a nonprofit organization.

IARFC Board: (L-R) H. Stephen Bailey, Peter J. D'Arruda, Jon M. Rogers, Michelle K. Blair, James B. Moss, Rick B. Stanzione, Isabel Cooper, Nicholas A. Royer, Mayo M. Woodward

Committees will be formed to encourage participation of qualified leaders of our industry (beyond the Board Members). We need inspirational people to help us with our membership, By-Laws and International goals. I will be reaching out to qualified individuals for assistance.

Events that put the IARFC name out there are critical. We have a conference in the planning stages that will combine the Board Meeting, the National Financial Plan Competition and CE presentations for the members to attend. The venue will be announced soon and I hope all the members will commit to supporting these events. Attend yourself and bring someone – that is our invite to you.

I am determined to get more publicity for the IARFC. Through the use of radio, TV, trade publications, conferences – whatever it takes. My promise is that YOU WILL BE NOTICING US MORE!

The Work Never Stops

Folks, the IARFC Team is on to me. They know my schedule. They know when I have a 2am brainstorm by the amount of emails that show up in their inboxes. Whether it is a direct request from "the Chairman" or a mild suggestion from "Steve", they follow through and do the best they can to support our agenda. And most importantly, they know enough to appreciate and thank my wife for putting up with me this past year. This team is a savvy group.

Enjoy the ride this coming year – you will be seeing progress from the IARFC!

H. Stephen Bailey, "Steve" Bailey, CEBA, LUTCF, CEP®, RFC® started HB Financial almost 30 years ago after already having a life insurance career. Steve is an elected member of the IARFC Board. He is also the 2010 recipient of the prestigious Loren Dunton Memorial Award. When not working with his clients you will find Steve on a golf course, spending time with his grandson or traveling with his wife, Bobbi.

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IARFC Team and Chairman: (L-R) Charlotte Isbell, Randy Kriner, Vicki M. Caplinger, Wendy M. Kennedy, Susan M. Cappa, H. Stephen Bailey

Active Investing Is Not Dead

From politics and regulations to technological advancements and global central bank intervention, there were many shifts, trends, and events that took place in 2016 that shaped the financial markets and our industry. Perhaps none of these drivers though, will have more of an impact on the future of wealth management than the ongoing shift to passive investing and the overall commoditization of what we do in terms of both planning and investment management.

There is no denying the rise of passive investing nor the reasons why such growth has occurred: low fees; transparency; tax efficiency; and better performance than the average active manager. According to Morningstar, active U.S. Equity funds had outflows of $263.8 billion in 2016 while passive U.S. Equity generated inflows of $236.7 billion, so investors are certainly voting with their feet. Even Warren Buffett, perhaps the greatest active manager that has ever lived, was on CNBC in February praising the virtues of passive ETFs and also did so in his famous annual shareholder letter. What's more, many pundits have outright stated that active investing is dead. We wholeheartedly disagree.

The biggest knock against active investing is that the average active manager doesn't beat the market, whether it's because of fees, taxes, transaction costs, or behavioral issues. I do not believe it is necessary for all active managers to beat the market to validate the approach. The support for my argument is based on the following points:

- Not all active managers are average
- Many active managers are not actually active
- Passive investing can create active opportunities

Not all managers are average. Some are just plain bad and there are others who have consistently outperformed the indices and their peer groups over long periods of time. You wouldn't skip out on all movies or restaurants just because the average ones fail to meet your expectations. There are still the potential Oscar winners and blockbuster films or the five-star restaurants worth visiting. There is no reason this thought process

shouldn't apply to active investment managers, either. While no one can predict the future, I think there are identifiable traits that can help you choose an active manager with a higher likelihood of outperformance over time, which I will discuss.

I also think there are a number of managers masquerading as "active" managers who are nothing more than closet indexers, hugging the benchmarks to avoid major deviations from market performance while charging high fees. This is an excellent formula to underperform, but in the mutual fund industry, one can underperform and still make a lot of money. What a manager can't do and still keep his or her job is blow up by taking big bets and losing. These closet indexers give active investors a bad name and are, in part, a driver behind the shift to passive.

I don't think many industry participants would dispute that passive investing and ETFs are here to stay, and that success has been at the expense of active managers. However, the irony is that the more money that flows to passive strategies, the greater the chance that securities in those strategies get mispriced on an individual basis. This should create greater opportunities for active investors. The reason is that passive funds buy or sell as basket of stocks or bonds based on the flow of funds, not on company-specific or economic fundamentals. Should a company's fundamental trend be in direct opposition to the flow of passive funds, a mispricing is likely to occur.

I also believe that active management can add value to investors for the following reasons:

- Passive management doesn't manage risk while active can
- Potential low future returns may require active allocations to reach goals

When you own a passive index, it's an all-or-nothing endeavor. You can't substitute ABC for XYZ or vice versa. What you see is what you get. You can't sidestep rising risk at a particular company or industry group or sell because a stock has become overvalued. Active managers have the potential to provide downside risk management (and identify upside opportunities) that is not incorporated in an indexed approach.

With stock and bonds at or near record highs (as of the writing of this article on 3/1/17) and above-average valuations relative to history, it is not out of the question to suggest that investors may be in line for below-average investment returns in the coming five-year period. For clients with specific income needs or appreciation targets, active management may have to be part of the story. If benchmark returns are low, some investors may look to active investing to provide the returns they need.

There are numerous keys to selecting and benefiting from active management. Some of the most important areas are:

- Taking a long-term view
- Focus on areas where the markets are the most inefficient
- Pursuing strategies with high active share and potentially, concentrated positions
- Selecting managers with a sound investment philosophy
- Identify managers who are owner/ operators or have "skin in the game"

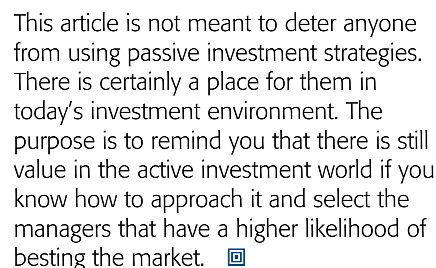
Every active manager has some period of underperformance, which can last anywhere from a few months or quarters or even up to a few years. While it may be difficult to stomach some of these periods, along with overall downdrafts in the markets, I suggest taking a longer-term view, preferably over a full market cycle, when assessing active managers.

Active managers thrive on volatility and inefficiency. With that in mind, using active managers in markets with those characteristics makes the most sense. Commoditized areas like U.S. Large Cap Equity might be appropriate to go passive with (although there are some good active managers in the space) while pursuing active exposure in areas that are inefficient, such as Small Cap Equity or Emerging Markets.

To avoid the closet indexers, who typically lack the opportunity to outperform, one must understand how active a manager truly is. You may have heard the term "Active Share". It is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index. Look for managers with high active share in order to weed out likely underperformers. This, coupled with a manager that takes concentrated positions, can be a good active manager candidate.

A sound investment strategy is paramount. How do they make their money? Does the strategy make sense? What are the reasons this strategy can outperform? Has the management team been consistent in terms of personnel and approach? How consistent have the returns been? How have they performed in down markets? These are some of the questions you should ask when assessing an active manager.

Having been part of a team that ran mutual funds, I know the pressure that some managers face from their companies to generate short-term performance. This often manifests in trading rather than investing or in taking too much risk toward the end of the year to catch up to the indices. Anecdotally, I've found that managers that are also owners tend not to put such pressure on themselves. After all, they are not going to get fired by… themselves. Additionally, a manager that invests heavily in his or her own strategy is less likely to take undue risk.



This article is not meant to deter anyone from using passive investment strategies. There is certainly a place for them in today's investment environment. The purpose is to remind you that there is still value in the active investment world if you know how to approach it and select the managers that have a higher likelihood of besting the market.

Cliff Walsh, CFA, RFC®

Cliff Walsh, CFA, RFC®, is the Chief Executive Officer and Chief Investment Officer of Progressive Advisory Solutions®, a SEC-registered investment advisory firm, that provides investment and practice management services to financial advisors, family offices, and endowments.

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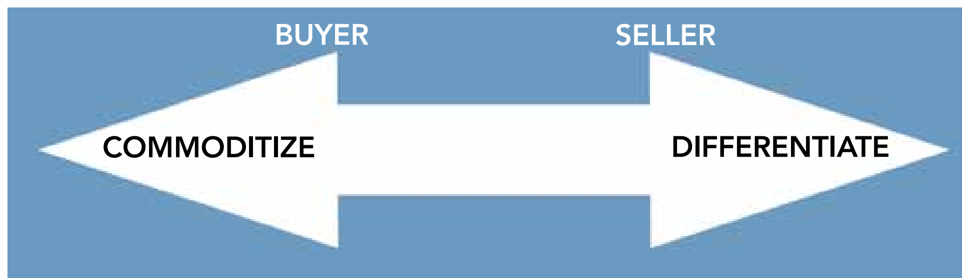
More Than Money Wealth Management

The Tallest Pygmy Syndrome

Commoditization hurts your professional consulting business in multiple ways and, in turn, adversely impacts your clients.

Here is the definition of "commoditize":
"Commoditize refers to a process in which goods or services become relatively indistinguishable from competitors over time."



"Indistinguishable" is not a word business owners want to hear. We all want to add value and stand out from the crowd to gain additional and higher quality clients. As we know, commoditization makes this increasingly difficult. In addition, it occurs over time.

"Often after a period of rapid growth, services become commoditized and price, not quality, becomes the primary element of differentiation."
– Dan Sullivan, Strategic Coach

There are two important points from this quote. First, competing on price is a losing proposition for professional consultants. If your competitors continue to reduce their fees, the margins in the entire industry will become razor thin. Second point, Dan Sullivan wrote the above words on February 1, 2004. The pain of commoditization on professional advisory practices has been affecting all of us for quite some time. The time to act was yesterday, if you want to eliminate competition and commoditization.

The effects of commoditization have been profound, but different in the various professional advisory industries. Advancements in technology have also exacerbated the problems of professional consultants. For example, estate planners provide mostly the same documents and planning strategies. Wills, powers of attorney, trusts are largely the same at most firms. Lawyers believe they are different somehow, but most are not. A more detailed fact finder does not differentiate your business. Technology has also had a devastating effect on estate planners. Now, these documents can be provided online at numerous websites for the fraction of the cost an attorney would charge. It's all part of the commoditization process and the pain it inflicts on professional advisors.

Now, accountants are limited by the laws, rules and regulations within the IRC and their respective states. There is only so much one can do within the bounds of all the laws. That's a common theme: the number of laws and regulations on professional advisors has increased two-fold since Dan Sullivan wrote those words. More rules and more regulation also led to increased costs to maintain your business within those bounds. How about the effect of technology on accountants? Ever heard of Turbo Tax? The evolution of technology has and will continue to exacerbate the pain of commoditization on professional consultants.

Family offices and financial advisors offer many of the very same investments and strategies due to the increasing top-down compliance rules from BD's, FINRA, SEC, Dodd Frank, etc.

However, perception is reality. Most clients do not perceive a significant difference

between hiring Wells Fargo or UBS to manage their assets. Truth is, the difference is probably minimal, and it does not matter. The perception of clients is that little differentiation exists between most family office and financial advisory firms.

And even if you are able to distinguish yourself from the others, all you are trying to become it the tallest pygmy! So you're bigger and better than the others, but you're not any different. That's the stale thinking that permeates the financial wealth management industry.

"More Than Money Wealth Management" puts you in a category of your own. You need to "dare to be different". When you truly are a commodity, you are the same as others. What if you all charged $99 for your services? Hard, if not impossible, to differentiate yourself. So you can lower your price to $98, but you still blend in with the others.

Even a change to $102 is not enough to have you stand out from the pack. It's only when you break rank and change color that you truly become unique.

Commoditization hurts our clients as well. We, as an industry, have stopped evolving to their needs. Unfortunately, we are not serving the needs of this HNW marketplace. They have plenty of wealth managers, lawyers, tax specialist, consultants, etc, but a huge hole (and opportunity) exists and assisting with their "More Than Money" assets.

Nearly every family faces daunting challenge to protect all assets of value.

Please consider the following:

91% of all wealth transfer fail by the time assets reach the wealth creators' grandchildren. *For love and Money 2011*

61% rate legacy development as a top financial need. *Mindscape Study, 2008*

77% of families say it is important to leave values and life lessons as inheritance. *Morningstar, 2011*

As a result, families are seeking solutions to fulfill these needs and mitigate significant risks.

Extensive research supports this claim:

a. 77% want to pass on values and life lessons. In this research, *Morningstar* provided a list of assets that could be transferred to the next generation and the participants could only pick one. 77% chose values and life lessons. Only 11% chose the money. How are you helping your HNW prospects and clients transfer the assets they find most valuable?

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$99	$99	$99	$99	$99	$99

b. 61% rate legacy development as a top planning need. *Mindscape* did this study which illustrates how commoditization has "pigeonholed" professional advisors into a box. And because of all the laws, rules and regulations in our industry, we have become timid about "thinking outside the box" and clients have unmet needs.

c. 91% of wealth transfers fail by the end of the second generation. 70% fail in one generation. And get this, less than 2% of failures are due to faulty legal and accounting work! As the largest wealth transfer in our countries history is about to take place, HNW families need to mitigate this overwhelming risk.

d. 25% of families receive all the advice/services they want from their advisors. 75% want more and better services! Again, commoditization has all of us in our areas of comfort, but HNW clients are telling us it is not enough. Commoditization hurts our prospects and clients as well. The very best professional consultants that reach a higher level of advising break the cycle of commoditization and address the needs of their target market in a simple, elegant and effective manner.

So break the "Tallest Pygmy Syndrome" and ranks of the Traditional Wealth Managers by moving into "More Than Money" Wealth Management.

In the next issue of "More Than Money Wealth Management is Living in an Inverted U-Shaped World".

Monroe "Roey" Diefendorf, Jr.
CLU, ChFC, CFP®, CIMA, CAP, RFC®

Monroe "Roey" Diefendorf, Jr. CLU, ChFC, CFP®, CIMA, CAP, RFC® active since 1970, Roey is the 4th generation of his family in the business. He has authored over a dozen books, including *"3 Dimensional Wealth: A Radically Sane Perspective On Wealth Management".* Roey, in conjunction with Shawn Barberis, JD, has introduced "A+ Life Family Pentagon" a technology tool to deliver "more than money" wealth management. This platform is the nuts & bolts that make 3 Dimensional Wealth consulting transformational for clients who wish to become "legacy" families.

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Making Trusts Work For Most Clients

First, let's understand how trusts came about. They go way back to the twelfth century during the time of the Crusades. When a landowner left England to fight in the Holy War, he conveyed ownership in his land to somebody who would manage the estate with the understanding that it would be returned to the Crusader when he returned. But many Crusaders found that their "trustees" refused to return their lands and English common law did not recognize the claim. Eventually the Court of Chancery was formed and recognized the claims of the returning Crusaders. The Crusader was the "beneficiary" and the acquaintance "trustee" eventually developing into what we call a "trust."

Simply, property is managed by one person or entity for another's benefit.

Through the years trusts became more sophisticated and varied and many people came to believe that trusts and trust funds were only for the wealthy but that is not true. Anybody with minor children, who wants to avoid the expense of probate upon their death need a trust. Or if you want funds to be held on a discretionary basis to avoid or mitigate the effects of taxation, divorce and/or bankruptcy, then an *asset-protection* trust will meet your needs.

What an *asset-protection* trust does is that it splits the beneficial enjoyment of trust assets from their legal ownership. Simply, you, the beneficiary own the *equitable interest* within the assets or funds of the trust, but you do not hold legal title to it. That insulates the trust assets from the claims of creditors without any kind of concealment or tax evasion. This common goal is relevant in income protection planning. The purpose of an *asset-protection* trust is to limit the interest of the beneficiaries in such a way as to preclude creditors from collecting against trust assets. But this type of trust must be irrevocable, which means that it can't be modified or terminated without the permission of the beneficiary.

Another strategy involves splitting the beneficial enjoyment of trust assets from their legal ownership by using an intentionally defective grantor irrevocable trust (IDGIT) as an *asset-protection* trust where the grantor loans assets to the trust.

Before I get into the details, in September 2003 when new regulations brought an end to split dollar transactions, I found that it was an opportunity particularly for income and asset protection and estate planning purposes needed in our constantly changing economic and tax law landscape. There are two exclusive tax regimes under the Split Dollar regulations- the *loan regime* and the *economic benefit regime*. The defining point to determining the appropriate regime is the ownership designation of the asset. In my book, *Private Split Dollar Strategies for Tax-Busting Solutions,* I go into much more detail illustrating case studies utilizing the *loan regime* (collateral assignment method).

The *loan regime* is used when the trust is the owner of the asset such as a life insurance contract. The grantor loans the premiums to the trust. The IDGIT will either pay the interest on the loan, or the amount of unpaid interest will be accepted as a gift by the grantor to the IDGIT.

The grantor is considered to be the "non-owner" and will take a collateral assignment against the policy owned by the IDGIT. A strict collateral assignment is not considered an incident of ownership (Reg 2042). However, the amount of the loan will be included in grantor's gross estate while the growth if any on the loaned asset is captured by the IDGIT. *(This is not a split ownership arrangement in which rights are equally divided proportionate to ownership. Split ownership is specifically excluded from the Regulations. Split ownership is not considered in a private structure because of estate inclusion of the death benefit under IRC 2042.)*

By combining a private split dollar arrangement with a Charitable Remainder Annuity Trust (CRAT) or installment note sale to an IDGIT, the grantor can obtain life insurance owned by the IDGIT and be repaid the loaned premiums as non-reportable, tax free income. The death benefit amount will remain in place inside the IDGIT after the loaned premiums have been repaid. I will be writing more on the usage of a CRAT and the perfect marriage it creates with an IDGIT. *(The income tax result may be mitigated with the use of an IDGIT. Rev. Rule 85-13.*

The income or repayment of loans from the IDGIT allows us to have an income stream for the later years during our lifetimes and is an excellent source for intergenerational income, retirement income or charitable gifting. There are specially designed life insurance products for this type of trust

application. (Please note: generally most life insurance policies, unless specially designed for this purpose, will not provide the ability to repay the loaned premiums).

Although the 2003 split dollar regulations limited the attractiveness of corporate split dollar, the regulations clarified opportunities for corporations to loan premiums to an IDGIT for the acquisition of life insurance for estate planning. This strategy can also be used in exit strategies and many other corporate arrangements.

Private split dollar is perhaps the most effective way to purchase large amounts of life insurance outside the taxable estate without significant transfer taxes and can provide tremendous leverage.

Private split dollar can lead to excessive costs if there is not a method in place to unwind or exit the plan by repaying the grantor. Generally the exit strategies are broken down as a lifetime or testamentary. The most common is the testamentary arrangement repaying the split dollar from the death proceeds while deriving tax free income during the life time of the donor. The income does minimize the loan value from the grantors estate and leaving the specified death amount to repay any unpaid loan amounts if an early death should occur. Portability is now permanent allowing the surviving spouse to use the "deceased spouse unused exclusion for estate and gift purposes. The spouse can use the unused lifetime amount either for lifetime gifts or for estate purposes on his or her subsequent death.

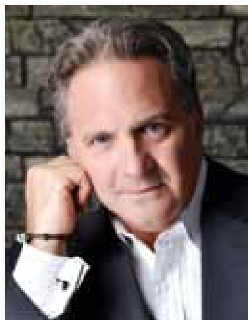
Understanding all of the different forms of split dollar can be a demanding task, and if you are interested in pursuing this course it would be wise to consult an expert in the field.

Once a trust is set up properly, it's equally important to use an administration company to calculate the proper applicable federal rates (AFR), gift tax concerns, and the proper IRC and Treasury regulations that relate to loaning assets to a trust. Because of constantly changing laws, it's important that the administration company you choose provides continuing services to make certain your trust is always up to date and on the mark. (One such company that I have used, and am comfortable in recommending, is the Banner Administration Company (BAC) headquartered in St. Louis, MO.)

Understanding an Intentionally Defective Grantor Trust (IDGIT), the grantor creates a trust and then lends money to buy an asset he or she expects will appreciate significantly. In return for lending the trust money, the grantor receives interest payments for a set number of years.

For years, estate planners have been using the IDGIT as a sophisticated estate freezing technique that results in converting appreciated assets with further appreciation potential into a fixed non-appreciation asset (a promissory note) by way of an installment sale to IDGIT. There are no income tax consequences resulting from the sale (no immediate gain; no recognition of interest and principal payments) due to the fact the donor is in effect selling assets to him or herself. Rev 85-13. For the installment sale to work properly, the sale must pass arms-length tests of being full value and adequately secured as to the sale that is not paid up front. If it is not, the IRS will treat the transaction as a part sale and part gift. Good planning would include having a "spigot" provision, so that the trustee can determine the grantor trust for income tax purposes.

Trusts are excellent tools for estate planners. There are many approaches to trusts so, if necessary, make certain you have experts guiding you because of the fast changing laws and the complexity of each individual's personal situation.



Ronald V. Pullman, Ph.D., CFA, RFC®

Ron Pullman, is President of Pullman Financial Corporation with offices in Pittsburgh & Florida. He is author of the best-selling "Private Split Dollar Strategies for Tax-Busting Solutions" which is available on Amazon; founder of the International Financial Network Radio and Television Show; Member of IARFC and Forum 400 as well as performing and writing music as a guitarist and vocalist.

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Please provide your name exactly as you want it to appear on your Certificate, excluding degrees or designations

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Education
(Education criteria requires an applicant to assert and document achievement in any one of the areas)
Education, Professional Designations or Licensing

Educational Background

School, City, State (Since High School)	Graduated		Major	Degree
	Yes	No		

(Evidence of license, diploma or documents may be requested. You need not submit evidence with the application.)

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Questions relating to business and ethical conduct

(If you check "Yes" to any of the following questions please attach a written explanation)

	Yes	No
Have you ever been refused a surety bond or other form of employment security?	☐	☐
Have you ever been denied or enjoined from selling or dealing in securities or from functioning as an Investment Advisor?	☐	☐
Have you ever been arrested, indicted, or convicted for any felony or misdemeanor, except for minor traffic offenses?	☐	☐
Have you ever been known personally by any other name, or have you ever conducted financial activities, conducted business or carried brokerage or bank accounts in any other name?	☐	☐
Have you ever become insolvent, failed in business or compromised with creditors? If "Yes" – please provide the date name and location of court, disposition, liabilities, and assets.	☐	☐
Have you ever had a license, permit, certificate, registration or membership denied, suspended, revoked or restricted, or have you had an application of such type ever withdrawn for cause?	☐	☐
Have you ever been the subject of any order, judgement, decree or other sanction of a foreign court, foreign exchange, or have you ever been the subject of any action by a foreign or domestic governmental or regulatory agency?	☐	☐

Attestations (Applicants please read carefully)

1. I hereby certify that I have read and understand the foregoing statements and that my responses are true and complete to the best of my knowledge.
2. I hereby apply for IARFC membership and, in consideration of my application, I submit myself to the jurisdiction of the Association and hereby verify that I agree to abide by all the provisions of the ByLaws and regulations of the Association as they are and may be amended; and I agree to comply with all such requirements, subject to right of appeal as provided by law, and I agree that any decision as to the result of any examination(s) that I may be required to pass or annual CE requirements will be accepted by me as final.
3. I further agree that neither the Association nor its officers or employees shall be liable to me for action taken or omitted in official capacity or in the scope of employment, except as otherwise provided in the statutes, ByLaws, or the Association's regulations.
4. I authorize the Association to make available to any federal, state or municipal agency, or any securities or commodities industry self-regulatory organization, any information they may have concerning me or to request confirmation of my status, and I release those organizations, employees and agents, from any and all liability of whatever nature by reason of furnishing such information.
5. I further agree that any part of the information contained in this application and any subsequent documents in my IARFC file may be divulged to interested parties as part of the referral system for the benefit of members and the public.
6. I hereby certify that I have a sound record of business integrity with no suspension or revocation of any professional licenses, and I hereby subscribe to the IARFC Code of Ethics, a copy of which I have read and understand.
7. It is agreed and understood that any material misrepresentation of facts or information given in this or subsequent application or renewal may be cause for immediate revocation of membership and all its privileges, without refund of any dues or fees paid.
8. I understand that failure to disclose any regulatory event, including suspensions or revocations, may disqualify me.
9. I agree to maintain proficiency in my work by completing continuing education in the field of financial planning and counseling — which can include subjects relating to practice management, delivery of professional services, portfolio management or financial product application and service.
10. As an applicant for membership, I understand and agree that my RFC® and/or RFA® designation with the IARFC will not become effective until submission of all required documentation in proper order and upon written acceptance by the IARFC.
11. I understand that all IARFC Certificates of Designation remain the property of the Association and must be destroyed or returned to the Association should my membership or the right to display the certificate of designation be suspended or terminated.
12. I understand that continuation of the RFC® and/or RFA® designation requires 40 hours of CE per year, which commences January of the year following acceptance.
13. I understand that if I do not meet the required professional experience of 4 years for the RFC®, the IARFC will qualify and award me the RFA® designation. RFA® designation converts to the RFC® upon completion of four years of experience.

I attest that I have read and understand the above, that the information I have provided is complete and accurate to the best of my knowledge and belief, and I further understand that my IARFC membership and/or designation may be revoked if I provided any false or incomplete information.

Signature of Applicant (required) Date

Recommend a colleague.

Full Name

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Marketing Unplugged

The Joy of Joining

"Professional associations can be powerful. In The Wealth of Nations (1776) Adam Smith observed: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." So how can this information help a financial consultants get more clients?

Enter Tom Stanley
Professional associations first came onto my radar when I attended a lecture in the 1980's given by Tom Stanley, author of ***The Millionaire Next Door***. He made the point every profession or industry has them. Next he observed many financial advisors in the audience probably belonged to one aligned with our industry. This led to his observation: "Who are you going to meet? Other financial advisors. Will they become your clients? No."

He pointed out plenty of associations in other industries or professions allow people not directly employed in the field to join as associate members. These trade groups often have their own magazines. The penny dropped. I got the concept.

What's the Rationale?
When I was in production, my largest client relationship came through my college alumni association, but that's another story. Consider the following rationale: You join the local Chamber of Commerce. Counting bankers, insurance agents, financial planners, RIAs and financial advisors, you are part of a crowd of 50+ members employed in the same field. You trip over each other.

If you join a medical society or industrial trade group, almost everyone else is employed in that field. You are possibly the only financial advisor. Assuming you get involved, how could this NOT lead to good things happening?

Before You Join Anything…
Remember "Proper Planning Prevents Poor Performance?" (You may remember a cruder version!) Start by doing some research.

Step One: Identify the best paying professions in your metro area. Conduct an Internet search on the words: "Bureau Labor Statistics Wage (your city name)." This should yield a report, "Occupational Employment Statistics Metropolitan and Non-Metropolitan Occupational Employment and Wage Estimates." It lists hundreds of professions, what they pay and how many people do them in your market. (If this report doesn't turn up, enter the exact title of the report above and your city name.)

The report will be eye opening. In most metro areas you will likely find:

- The highest earners are almost all doctors in specialty fields and dentists.
- The most popular job requiring a college education is being a Registered Nurse.
- Nurses make more money than you think.
- Accountants make less than you think.
- Financial, marketing and sales managers are pretty well paid.

Step Two: Think about industries and privately owned businesses that are likely very profitable. They probably have professional associations too.

Step Three: On a rainy weekend, conduct Internet searches for "Professional Association" and the name of the high paying job you found. Build a list of the association names and website links.

Step Four: Visit their websites and learn about membership categories. Do they offer associate memberships? What are the criteria? How much do they cost?

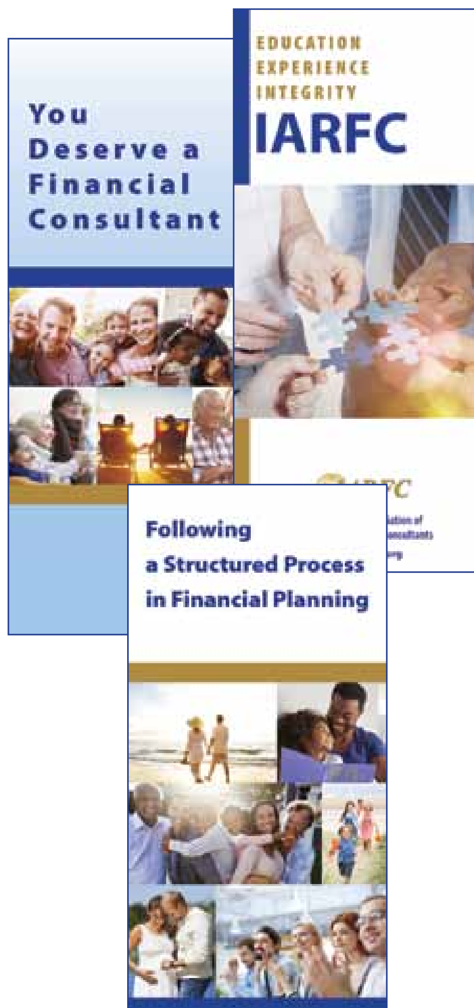
Step Five: Your list is shorter now. Revisit each website. Look under "Events" or "Calendar". Do they have dinner meetings? Do these meetings feature speakers? Do they have stand-alone lectures or educational programs? What are the topics? They likely have an archive of past meetings and events. Your object is to find topics that were not technical or specifically aligned to the profession. Ideally they've had an attorney, accountant or HR person giving talks.

Step Six: Do they have a publication? You can probably browse the current and back issues online. Get a sense of what they cover. More important, what don't they cover? This is important because you have the potential to fill a hole instead of offering more of the same.

Time to Get Started
Now it's time to join. You have likely narrowed the field to a couple of professional organizations. Ideally you have clients, friends or family members who already are members. This is a great advantage because they can introduce you to the major players.

You want to have a rationale for joining. You might specialize in helping people

Experience
Education
Integrity



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within that specific profession. After all, you have lots of dentists as clients. The financial services industry rarely hires consultants directly from college. For most people it's a second (or third) career. Were you an attorney or CPA in your previous life? That might get you in. You might have attended a college that's synonymous with a specific profession. (i.e., engineering school.) This might provide the necessary credentials. Bottom line: If they've got associate members who are bankers or lawyers, they will probably let you in too.

Now we have a new set of steps for your initial months in the group:

Step One: Join. Attend. Sit quietly. Listen.

Step Two: Attend. Meet a few new people each meeting. Sit quietly. Listen.

Step Three: Join a committee. It shows you are a worker bee.

Step Four: Most professional associations have professional staff or volunteers who run membership, fund raising and event planning. Meet them. Be nice. Get them to like you.

Step Five: Ask your new friends from Step Four to introduce you to the Executive Director, president and officers. Compliment them on running a good operation. Add in the publicity person for good measure.

You will observe we are moving slowly. Why not speed things up? I need clients? You are not the first financial advisor to crash the party. As a Type A personality, you are used to jumping off the diving board, not wading in at the shallow end. However, in a room full of physicians, you are not one of them. They need to get comfortable with you first.

OK, I'm Settled In. Where Are Those Business Opportunities?

You know the lay of the land. Here are a few ways to raise your visibility and showcase your profession.

- **Dinner Speaker** – Can you do a 10, 20 or 30 minute talk on Identity Theft or Cybersecurity? It's likely your firm has compliance approved presentations on the topic.

- **Educational Programs** – If the members are in a field where continuing education is a requirement (think accountants) do you have compliance approved seminars that are eligible for CE credits? How about a seminar on retirement planning?

- **Publications** – Hopefully they do not have a financial advice column. Does your firm have compliance approved ghostwritten (canned) articles on interesting topics? Is it even remotely possible you could write some lifestyle pieces (How to access your money on overseas vacations)? You want a byline listing your name, profession, firm and contact information.

- **Trade Shows** – Does the group have one? Do vendors setup booths? Can you do a business card draw for a prize?

- **State Conferences** – Do all the chapters gather once a year? What's the program look like? Do they have breakouts and workshops? What will this cost me?

- **Foundation** – Many professional associations award scholarships to deserving students. They are likely funded by an endowment or foundation. How is that money managed? Can you compete to bring one of your professional money managers onboard?

You are employing a sophisticated strategy as you get involved with your professional organization. You aren't a loudmouth. You aren't a ghost. You attend meetings. You let people get comfortable with you on their terms. You meet the players. You raise your visibility in arenas you identified before you even joined. Best of all, you might have the place entirely to yourself! ▣

Bryce M. Sanders

Bryce Sanders is president of Perceptive Business Solutions Inc. He provides HNW client acquisition training for the financial services industry. His book "Captivating the Wealthy Investor" is available on Amazon.

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www.perceptivebusiness.com

Consumer Focus

Planning for and Caring for Your Parents

Caring for our seniors is perhaps the greatest responsibility we have. Those who walked before us have given so much and made possible the life we all enjoy." – John Hoeven

When it comes to care giving, the baby boom generation is unique. Perhaps because boomers are living longer and perhaps because of social changes in the last century, many of those now nearing retirement find themselves caring for their children and their parents at the same time. Needless to say, this can be a financial burden. But there are certain things that you should do, and other things that you should not do in this regard. One thing to avoid, if at all possible, is dipping into your personal retirement savings to help either a child or a parent. It is not advisable for several reasons.

In retirement accounts that are tax deferred, you will owe taxes on any money you withdraw. In most cases, if you withdraw money before reaching age 59 ½, you will also pay a 10% penalty on the amount withdrawn. If those two reasons aren't good enough to leave those accounts alone, consider this: Your retirement savings is probably growing at compound interest. If you take money out, even if you fully intend to replace it down the road, you have lost not only the money taken out, but also the ***time value*** of that money. You have literally lost those years of compound interest. Why is that so important? Because compound interest means that not only does your money grow, but also the interest gains interest as well. In many cases, it would be better to borrow money instead of dipping into your retirement fund. Any years that go by without those dollars working for you are lost forever.

To illustrate how just losing a small section of time from a time-sensitive account can make a large difference, consider what would happen if an airplane flying from Los Angeles to New York City were one degree off course. For every sixty miles the plane flies forward, it flies one mile off target.

I use this illustration sometimes at events where I am asked to give talks on preparing for retirement. When I posed the question to one group, a quick thinker near the front said, "Your plane would get shot down."

Curious, I asked him to explain.

"Well, if you kept flying off course like that and didn't correct it, the Air Force would scramble some jets and take you out, thinking you were a terrorist or something."

I got it.

It makes the point anyway, doesn't it? If you don't want your retirement "shot down," stay on course with it. It is amazing what a difference one degree will make.

Helping Older Parents Make Decisions

Your parents may be in a situation where they are up in years and perhaps vulnerable when it comes to decisions pertaining to money and healthcare. Let's face it, older

people fall for the "slick-talking" salesperson more readily than younger folks. It could be they don't hear quite as well as they once did and don't want to acknowledge it when they fail to understand something. Also, older adults are sometimes more easily intimidated when a salesperson befriends them and then uses high pressure tactics to close the sale.

It is simply a good idea to encourage your parents to adopt a 48-hour rule when it comes to making any decisions that require a signature. Take two full days to relax and think about it. They will be able to use that time to consult with someone within their circle of trust — someone who has their best interests at heart — before making a significant decision on anything.

Decisions regarding long-term care can be difficult for your parents, if they are advanced in years and are not capable of making such decisions on their own. It is advisable to have those kinds of discussions long before the long-term care is needed. When money is involved, the subject may often be more easily broached with the help of a third party professional, such as an elder law attorney. He or she will be able to help you prepare whatever legal paperwork that will be necessary to make a fluid transition to a care facility when the time comes. The attorney will be able help you put in place such documents as a healthcare power of attorney, living will and anything else that is needed.

Nursing home care, as of this writing, averages between $70,000 and $80,000 per year, and over 50% of those who enter a facility, will stay longer than a year. Misconceptions abound as to who pays for this. Some think regular health insurance or Medicare will pay for it. But that's not so. On average, Medicare covers only about 2%, and private health insurance covers only 1% of nursing home costs. Latest research reveals that almost 70% of people 65 or older will need long-term care services at some point in their lives.

"Nobody wants to plan ahead for this," says Virginia Morris, a journalist who has written widely on the subject of aging. "But you will be so grateful you did it, because if you don't do it, you'll end up responding to one crisis after the next, and you are exhausted, and your parents will get mediocre care."

Experts contend that the time to bring up the subject of healthcare with parents is before it becomes "crisis driven." It is much easier to deal with a future situation than a current situation — when it can be regarded as planning for possible eventualities instead of handling an emergency.

Procrastination in this area helps no one. Your parents may not require help from you now, but sooner or later, they will likely be faced with receiving some kind of assistance. According to statistics from the U.S. Department of Health and Human Services, in 2000, there were 10 million people who needed help with activities of daily living, such as eating, bathing and dressing. By 2050 that number will more than double to 27 million.

What about Long-Term Care Insurance?

One of the enduring ironies about long-term care insurance is that when we can afford it, we don't think we need it. We are bulletproof and indestructible! By the time we come to be in touch with our own mortality, and realize the need for it, we can't afford it.

The insurance companies haven't made it any easier. For years, it has been a "use it or lose it" proposition. If you pay into a policy for decades, and then drop it, all those premium dollars are down the drain. What happens if you never need the care? With stand-alone, traditional long-term health care policies, there is no provision for having any of that money returned to you. If you live to a ripe old age and "die with your boots on," as the saying goes, the money you paid in premiums all those years certainly doesn't go to your heirs.

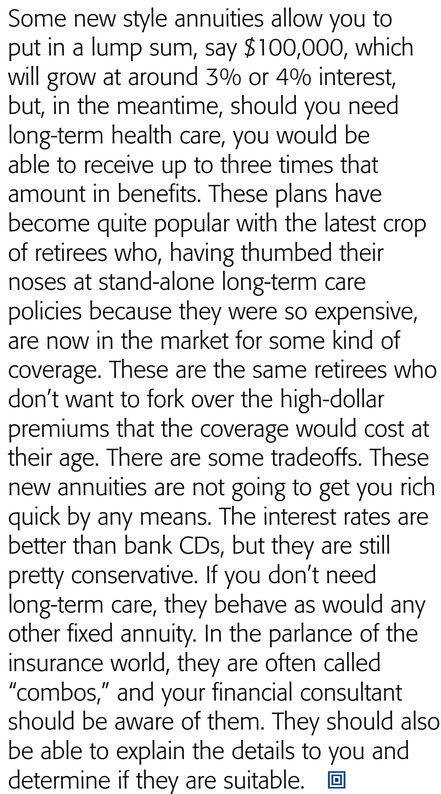
Another problem with long-term care policies sold decades ago was that they were mispriced. The premiums were too cheap. When carriers experience higher claims than they expected, in some cases where the contracts allowed, they raised premiums. This has forced some to drop polices they have had for years, because the premiums were no longer unaffordable.

But times are changing in this regard. There are many newer policies on the market these days that, while they aren't the traditional long-term care policies, they address the same needs without becoming prohibitively expensive. Plainly stated, these new policies were developed because the old style "use-it-or-lose-it" offerings just weren't flying off the shelves. So to answer the complaints made by the burgeoning baby boom generation, a new breed of life insurance and annuity contracts began arriving on the market around the year 2000. These policies provide long-term care benefits ***when and if you need them***, but allow you to keep the money you put into the annuity or life insurance policy if you don't.

One annuity, for example, will give you a lifetime income that doubles if you need long-term care in a nursing home. It is not a true long-term care policy, and it may not cover all the expenses associated with long-term care, but it's better than having nothing at all.

Some new life insurance policies will let you dip into the death benefit while you are still alive, if you need the money to cover long-term care expenses. If you don't use it for long-term care, then the death benefit stays intact. This seems to make a lot of sense. If you need the care, why not go ahead and use some of the death benefit and put yourself in charge of how and where that care is administered. If you left those decisions up to your family members, they would likely foot the bill and then, upon your death, receive the death benefit to reimburse them. This way, however, you can be more in charge of your own affairs.

One good thing about America is that the free enterprise system hates a vacuum. If there is a need out there, it will soon be filled. Some enterprising soul will come along and make sure that every itch has a scratcher. That phenomenon holds true in the world of insurance, too. When companies began to realize that the traditional "use it or lose it" approach to long-term care insurance wasn't attracting customers, they put on their thinking caps and invited their actuaries to the table to design contracts that would be more of a win/win situation for both the company and the policy holder. One result was a hybrid life insurance policy that has been steadily growing in popularity in the insurance marketplace. In some respects, it resembles a CD at the bank. You put in a lump sum, and if you need long-term care in the future, it will give you back three to five times what you put in — just for that one life event, long-term care expense. If you put in $100,000, for example, and you need long-term care in the future, you could get $400,000 or so back in increments as specified in the policy. If you die without needing long-term care, then the benefit turns into life insurance. Approximately one and a half times what you put into the policy is paid out as a tax-free death benefit to your heirs. The terms of the coverage will vary depending on your age, your health, and whether you are male or female, which is why you may find it advisable to meet with



a qualified, trusted consultant to see if such a plan would be suitable for you and your unique circumstances.

Some new style annuities allow you to put in a lump sum, say $100,000, which will grow at around 3% or 4% interest, but, in the meantime, should you need long-term health care, you would be able to receive up to three times that amount in benefits. These plans have become quite popular with the latest crop of retirees who, having thumbed their noses at stand-alone long-term care policies because they were so expensive, are now in the market for some kind of coverage. These are the same retirees who don't want to fork over the high-dollar premiums that the coverage would cost at their age. There are some tradeoffs. These new annuities are not going to get you rich quick by any means. The interest rates are better than bank CDs, but they are still pretty conservative. If you don't need long-term care, they behave as would any other fixed annuity. In the parlance of the insurance world, they are often called "combos," and your financial consultant should be aware of them. They should also be able to explain the details to you and determine if they are suitable. ▣

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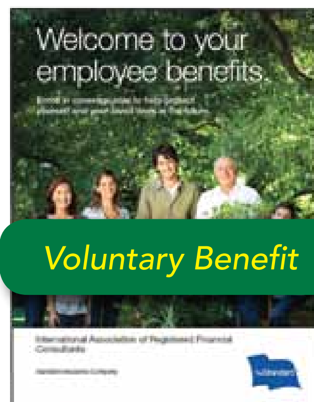

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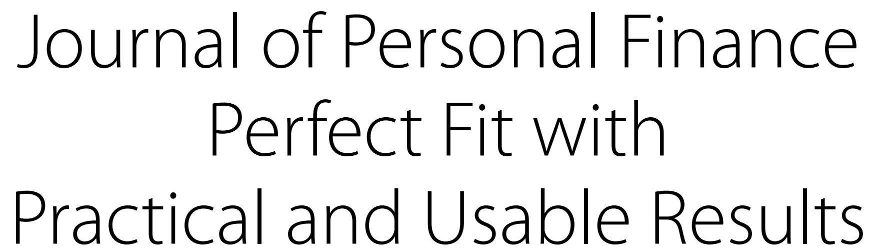

Journal of Personal Finance Perfect Fit with Practical and Usable Results

Co-Editors: Dr. Pfau and Dr. Woerheide
The value of the Journal of Personal Finance, how it connects to the nonacademic professional financial consultant.

Dr. Pfau and Dr. Woerheide are on task in our May/June issue to discuss the value of the *Journal of Personal Finance*, how it connects to the nonacademic professional and differs from the *Register.* Perhaps the place to start is a brief categorization of the functions and style of each publication.

The *Register* as a trade publication reviews industry trends, introduces new products or explains different points of view. Geared more toward the practitioner in financial services, the articles are less formal, less technical and typically by a single author. Shorter in length, they are accompanied by industry related graphics and photos and are more loosely organized.

The *Journal of Personal Finance* as an academic offering brings together research by scholars on a particular methodology or theory. Aimed at academicians in the field, it includes a bibliography composed of scholarly references. More formal than a trade publication, it almost always includes an abstract. The publication and the articles are typically two to three times longer than trade journals.

Register: **Tell us the reasons you signed on as a co-editor of the Journal?**

Dr. Pfau: Personal Financial Planning is still a relatively new field in academia. More and more universities are adding departments and programs to teach financial planning. It is a pleasure to be in on the ground floor for personal financial planning and to help guide and shape the direction of research to build the profession's body of knowledge. Being a co-editor at the ***Journal*** provides an excellent way to do this.

Dr. Woerheide: When I first started teaching at the University of Illinois at Chicago in 1974, I set some goals for my career. These included multiple publications, promotion through the ranks, tenure, an endowed chair, president of a professional association, and serving as editor of a journal. Up until a few years ago, I had accomplished all of these except the role of an editor. So when the opportunity to edit the *Journal of Personal Finance* came up, I jumped at it. This is the field in which I have been publishing for the last 20 years or so, and I felt it was a natural fit. To me, it is the ultimate in giving back to the profession.

Register: Describe the process when choosing which articles to include? Is there a specific set of criteria?

Dr. Pfau: We look for articles that combine academic rigor with a meaningful contribution to the planning profession. It's a delicate balance. Articles must be academic; we can't publish opinion pieces or editorials. But we also always focus on whether reasonably sophisticated practitioners will be able to follow the study and gain value from it. On occasion we have rejected an article for being too "academic" or mathematical, and therefore becoming hard for a practitioner to follow, or otherwise not providing any sort of practical and usable results.

Dr. Woerheide: There are several criteria I use. First, would the article be of interest to someone in the financial services field. Second, does it say something new. If I can guess all the conclusions of the article just from reading the title, then I don't think it is providing anything new. Third, is it well written and does it flow in a logical and

coherent manner. Finally, I am looking for diversification of topics. My hope is that a reader of the *Journal* will find at least one article in each issue that is of interest.

Register: **In your opinion, what is the value added significance of publishing an academic journal for the IARFC?**

Dr. Pfau: I think there is a lot of value to be gained from being viewed as a "thought leader" and publishing an academic journal can really help in this regard. The *Journal of Personal Finance* can be considered as one of the "Big 5" research journals in the field of financial planning, and this helps to gain wider recognition for the IARFC and its role in guiding the profession.

Dr. Woerheide: All the major professional associations publish a journal. A journal helps to define the interests of the membership, and should be providing significant benefits to the members. It marks one of the differences between organizations whereby people pay dues to say they are a member of that organization, and an organization that is a real professional entity.

Register: **How do you see financial professionals connecting to the articles in the *Journal* and utilizing the information in the field?**

Dr. Pfau: As I mentioned, practical relevance and understandability are some of the key criteria we use to help select articles for publication. We hope that these articles can provide useful insights for professionals out in the field.

Dr. Woerheide: My hope is that readers will find one or two articles in each issue that they will think are worth scanning or even reading, and as a result the article will give them a new insight into an issue, suggest new or better solutions to problems the readers deal with in their work, or even help them identify an area where they might help clients that they had previously not thought of.

Register: What are the benefits to the consumer when reading the Journal? Is it beneficial to the average consumer?

Dr. Pfau: Through my blog and website, I've always tried to write for an audience of consultants and sophisticated consumers. I've tried to bring that same approach to the journal as well. Sophisticated consumers should be able to understand and gain value from the articles we publish. Consumers with very little financial literacy will not be able to follow, but for sophisticated consumers, the consultant and their client could potentially have nice discussions about how to incorporate the research findings into their financial plans. Articles we've published that include valuable insights for consumers have included how to think about the home as an asset that interacts with other assets on the household balance sheet, how to build tax efficient withdrawal strategies in retirement, and how to think about the role of a tenure payment from a reverse mortgage as a potential alternative to annuitizing a portion of retirement assets.

Dr. Woerheide: Every consumer needs to regularly think about his or her own personal financial situation. This includes learning new things to improve his or her own position. Even though I have a Ph.D. in finance, I still make it a point to read material regarding investing, in the event I might learn something new that will help me be a better investor. Financial literacy in this country is really low. It is one of the reasons so few people are prepared for retirement. Reading articles in journals like ours can only help raise the level of financial literacy.

Register: **As you are gathering and selecting articles for publication, what do you perceive as the main concerns for the consultant and do you feel the *Journal* adequately addresses these issues. Has there been any recent trend?**

Dr. Pfau: From my perspective, my main focus is on retirement income planning. This is still a new area leaving consultants thirsty for knowledge. In retirement, clients become more vulnerable to market volatility significantly disrupting their standard of living. New risks require new approaches. Other main concerns include how to incorporate behavioral research to help clients overcome their biases and achieve better outcomes, and also how to demonstrate in a quantitative way the potential value to consumers who work with a financial consultant. The *Journal* focused on publishing articles that address these areas.

Dr. Woerheide: I think good consultants are always looking for ways to better serve their clients. These include technical issues, strategies, and even better understanding the psychology or tendency of clients. I hope we are providing these sorts of information in our articles. I am not really aware of any particular trend.

Register: **As you both are experienced writers and contributors, how have you seen the *Journal* evolve over the years, or other financial academic journals as well?**

Dr. Pfau: I think what has helped to make personal finance into a distinct discipline is its focus on practical research. I come from the field of economics where many colleagues were particularly proud to create research without any practical relevance. But this is not the case in personal finance. Prior to becoming an academic field, personal finance was guided by many rules of thumb and simple notions about best strategies. I think we are increasingly seeing articles that provide rigor in testing those rules of thumb. In the end, some of those rules of thumb have held up, but others haven't.

Dr. Woerheide: I am not that familiar with the ***Journal*** prior to joining as co-editor, but I can say this about the financial academic journals in general, and that is there has been a steady growth in the publication of articles that would generally be classified as personal finance. When I started my academic career back in the 1970's, it was difficult to find a journal where one could submit an article that focused on personal financial planning. There were lots of journals for corporate financial planning and institutional investing. I think this trend is testimony to the slow but steady evolution of financial planning as a discipline.

Register: **Are there any changes or enhancements for the *Journal* in the future?**

Dr. Pfau: We have been consistently publishing two issues per year with about six articles per issue. We hope to keep this trend as a regular plan of action. Recently, we also published the case study solution provided by the winning team at the **2016 IARFC National Financial Plan Competition** for college students. This should become a regular trend, and hopefully encouraging students to also become regular readers of the ***Journal.***

Dr. Woerheide: In a recent issue we carried an edited version of the winning case in a contest sponsored by the IARFC. I would really like to be able to provide one such article with each issue. My sense is that consultant might find benefit in seeing how someone else approaches a complex case and what sorts of recommendations the authors come up with. It would be kind of a test your knowledge article. Unfortunately, there aren't that many contests held each year, so unless some of the consultants would want to take the time to construct a case along with a solution, I am not sure where we could find the cases to publish. A

case can be modeled on an actual client situation, but there should be some alterations and of course name changes to provide more than sufficient confidentiality.

Register: **Turning to our favorite topic of late, accreditation, how do you see NCCA accreditation helping the Association?**

Dr. Woerheide: The NCCA has a set of rules about how a designation should be created, administered, and monitored. Adherence to these steps signals to the public at large that all the circumstances are present to demonstrate credibility, integrity, and impartiality for the designation.

Register: **Through your professional years of study, research and academic contributions to the financial services, what have been the most significant highlights of your career and why?**

Dr. Pfau: For me, making the transition from economics to personal finance is a highlight that came very quickly. Within a year of focusing on financial planning research, I published an article on safe savings rates that was discussed in numerous media outlets including the ***Economist*** (which was a true career highlight), and which subsequent won the inaugural Montgomery-Warschauer Award for research articles published in the ***Journal of Financial Planning***. That article really set my career in motion very quickly and became a key highlight for me.

Dr. Woerheide: One of the things I am most proud about is that I have served as the President of two professional academic associations, the Academy of Financial Services and the Midwest Finance Association. Another is that in 1989, when I was at the University of Michigan–Flint, I was given the Faculty Achievement Award for Scholarly or Creative Achievement. A final accomplishment is that during the 12 years I served as Dean of The American College, I have had the opportunity to hire most of the faculty we now have at The College. I believe the quality of our faculty compared to institutions similar to ours is second to none. Many of our faculty are recognized as thought-leaders in the field of personal financial planning, and I was the key person in recruiting them.

Register: **On the personal side, how do you spend your time away from your career and professional workplace? What passions in life keep you balanced?**

Dr. Pfau: I have three young children now, and this keeps me pretty busy. It's nice revisiting hobbies from my childhood with my children and seeing what kind of interests they develop. These types of activities include hiking, camping, amateur radio, visiting historical sites, and reading about history.

Dr. Woerheide: I love working in the yard at home. It is one of the few situations where when I am done, I can look at how beautiful the yard is and appreciate God's creation in providing so much beauty in the world. I also enjoy reading, with history being my favorite topic area. Many years ago, I played racquetball at the semi-professional level, played an okay game of tennis, played tournament bridge, and even ran in 5K and 10K races, but I have reached the age where my body now tells me it is time for more sedentary, less anxiety-producing activities.

Walt Woerheide, Ph.D., ChFC®, CFP®, RICP®, RFC®, has been at The American College for 16 years, and served as VP of Academics and Dean for 12 of those years. He holds the Frank Engle Distinguished Chair in Economic Security Research and is a Professor of Investments. Dr. Woerheide earned his Ph.D. and MBA degrees from Washington University, and has a BA from Brown University.

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Do You Want To Dramatically Increase Your Appointment Conversion At Your Seminars?

Tell A Genuine And Relatable Story!

From witnessing hundreds of seminars and receiving feedback from hundreds of advisors making the presentations, I have gathered invaluable data as to which dynamics and techniques make the biggest difference in converting attendees to appointments at your events. You've probably heard the best probability of securing an appointment when your prospects are at their highest level of interest which is during the transition from your presentation to the dinner part of your event. That is if you did a good job connecting with the audience…yes that is important, very important. But more critical is how you make that transition and the things you say before asking for those appointment cards.

I've uncovered and witnessed an excellent way to increase your odds somewhat dramatically if you are genuine and you tell a sincere story about "procrastination"…a universal human trait that haunts us all. First, you must understand that the majority of your attendees are there for a financial and emotional reason. They are seeking guidance, advice and looking for answers to help them manage their life savings in retirement (and you thought they were just there for the food huh). Immense data, for 22 years now, tells us that assuming that is a marketing mistake.

So, what all of your audiences most likely have in common is that they have been "procrastinating" to meet with an advisor or an estate planning attorney to get their matters in order. Millions of individuals are

in that situation, it's common human behavior…especially when they don't understand the complex world of investing, insurance, wills, asset protection, trusts and many other retirement planning options.

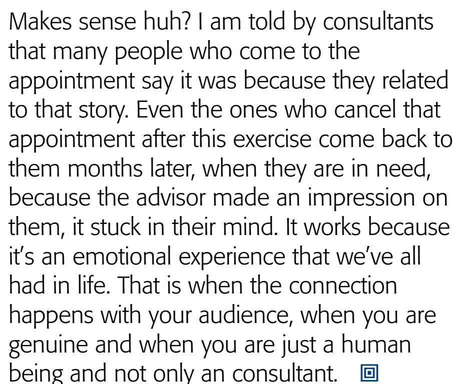
To describe the mood at the start of every seminar event: they are all guarded, insecure, confused, and feel vulnerable. They have accumulated money and they don't really know the best way to manage their overall financial picture. Many are also embarrassed to meet with you as a result. For that reason, you have to break through those big emotions and to gain their trust…that evening. That should be your only goal at the seminar, it's not about selling a product or a service. That comes later, face to face, privately in your office.

So here goes, the solution or my recommendation to convert many more appointments at your events. It's a simple one but you have to do it right. Tell a compelling story about "procrastinating". Let me explain. All of us remember an individual or individuals who made a difference in our lives when we were young. They said something, did something or pushed us to do something that made a big effect in our lives as adults. I have several of my own in mind during my youth… coaches, teachers, friend's parents and relatives, many who no longer are with us. I wish I could find some of them today to thank them and to tell them how grateful I am for how they influenced me and how meaningful it was to have had them in my life.

You and your audience will in no doubt have many of those same stories in common…and because of that, your story telling becomes real and genuine. You see, those special people in our past pushed us to do something. They pointed us in a direction that made a difference or perhaps shaped our future in some way. That memory stays with us forever.

Now, use that example scenario that evening after your presentation to do the same for them. Explain that you did the first part to help them by inviting them to your dinner event. They did their part by showing up. Now you want to be that special person (like in their past) who will push them to take the next most important step…***to stop "procrastinating" and do something about their financial concerns.*** You want to be that next individual in their lives who they will someday remember and thank for helping them take action. Ask them to fill out your yellow (or whatever color) appointment card that has several dates and time options. Explain that they must select a time even if they want to change it or cancel it later. Tell them that the mere fact that they physically put it down on paper (like we were taught with our goals) is what will make things happen. By filling out your card they take the next step into solving their concerns and attaining peace of mind.

You now, as an advisor, become that coach, that teacher, that friend, that special individual who will make a difference in an important stage of their life…just like when they were all children.



Makes sense huh? I am told by consultants that many people who come to the appointment say it was because they related to that story. Even the ones who cancel that appointment after this exercise come back to them months later, when they are in need, because the advisor made an impression on them, it stuck in their mind. It works because it's an emotional experience that we've all had in life. That is when the connection happens with your audience, when you are genuine and when you are just a human being and not only an consultant.

Jorge Villar

Jorge Villar is the President and Founder of RME360, a $24 million dollar marketing powerhouse. With more than 26 years of direct marketing experience, he is known in several industries for his ability to create campaigns that garner the highest response rates. He is the innovator of the National Seminar Success program that for the last 17 years has accounted for more than 65% of the seminar events being held nationwide, with over 17 million attendees. Mr. Villar has also been very successful marketing to physicians and business owners regarding Succession Planning and Asset Protection. Mr. Villar is a frequent key note speaker at national financial symposium and marketing training conferences.

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Engage in Associations that offer a win/win situation for both you and the group you are part of. Investigate the member benefits, Board of Director members, educational programming and events, frequency of meetings and all the options available to you after becoming part of the group. Depending on your personality, you may want to attend a variety of meetings and events as a bystander or really become involved in the mechanics of how the Association or Chapter operates. That is why prior research is recommended.

Benefits:

1. **Introductions to others within the Association.** Try to find out who some of the other members are and if this is the right group for you. Networking within an Association is expected and this could lead to communication about employment changes, new clients, learning about a business that is for sale or any myriad of other opportunities. Until you spend time with someone on a one to one basis, you don't know where the conversation will lead. You may become involved in a casual conversation before the Association's meeting starts and discover that someone sitting next to you is looking to hire for a position that is perfect for you! That would have been a missed opportunity if you hadn't become part of the group. Reflecting on the organizations that I belong to, I realize that there is so much to learn from other people and I am glad that I take advantage of all the opportunities available to me.

2. **Public Recognition.** After joining a Chapter or Association that you feel is the right fit for you, become involved in it as little or as much as you care to. Become an integral part of the group, offering them what you excel in. Promote yourself by advocating what you can do for the organization. Others will recognize your dedication and ask for your advice, participation, or further information about yourself. This could lead to deep and long term connections, both professionally and personally. Writing articles, assisting with meetings, finding guest speakers for the group, or many other helpful ideas, will bring your name up to the forefront as a worthwhile member.

3. **Member Discounts.** Many Associations offer their members deep discounts to a variety of business related companies. You can save money on many different types of company used services such as; cell phones, printing, shipping, website development, office supply purchases and many more. Personally, I save 15% on my cell phone from this type of discount. Sometimes using one or two of these discount offers, pays for your membership fee!

4. **Education.** Each Association that you become part of will offer some sort of give back to their members in the form of education. This could be CE credit classes, general meetings with a wide range of guest speakers and topics, or general social meetings to mingle and network with others. Taking advantage of this can be eye opening. Attending a Symposium or Convention may generate a spark that could be a lifeline to you or your company. Walking away from a meeting with just one NEW idea can open your mind to something you never thought of, but really find useful.

Join an Association —Try It — You'll Like It!!

Michelle Blair, RFC®

Michelle K. Blair, RFC® is an office administrator specializing in management and relationship building. She is a Board member of the IARFC as well as the Secretary of the Financial Planning Association, Long Island Chapter. Michelle devotes quite a bit of time to promoting professional and personal growth in the industry.

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International News

2017 Event and Education Program Highlights

Highlights

IARFC Mainland China
February 18, 2017
RFC® Graduation Ceremony Conducted
Two RFC graduation ceremonies were conducted in ChenDu and JiNan, each with 86 and 106 new members.

IARFC Macau
March 11, 2017
RFC® Graduation cum Conferment Ceremony
An RFC Graduation and Conferment Ceremony in Macau was successfully completed on Saturday, March 11, 2017 at City University of Macau for the conferment of the RFC professional designation to graduates of the RFC education program, "Professional Certificate in Financial Consulting (Executive Program)". Dr. Teresa So, Professor Shu Guang Zhang, and Mr. António José Félix Pontes, officiated at the ceremony. Dr. Yinggui Wang, delivered his keynote speech on "Excel at Your Job".

VIP List of the ceremony:

- Professor Shu Guang Zhang, Rector of City University of Macau
- Professor Sean Li, Registrar of City University of Macau
- Professor Rui Rocha, Director of Department of Portuguese Language and Culture of Portuguese-Speaking Countries
- Dr. Eva Khong, Executive Associate Dean of Faculty of Business
- Dr. Yinggui Wang, Associate Professor, Faculty of Business, City University of Macau
- Mr. António José Félix Pontes, Chairman of the Executive Board of Macau Institute of Financial Services
- Ms. Evelyn Kun, General Secretary to the Executive Board of Macau Institute of Financial Services
- Dr. Teresa So, Chairman, IARFC Hong Kong and Macau
- Mr. Allan Wan, Executive Director, IARFC Hong Kong and Macau
- Mr. Lao Kam Chio, Adviser to the Executive Board of the Macau Institute of Financial Services
- Dr. Vincent Huen, Senior Treasurer of Sociedade de Jogos de Macau, S. A.
- Ms. Chen Fen, Director of the Personal Banking Department of the Bank of China (Macau Branch)
- Mr. Chris Ma, CEO of AIA International Limited
- Ms. Manda Chan, Deputy CEO of AIA International Limited
- Mr. Lo Chi Man "David", Assistant Director, Business Training and Develop of the AIA International Limited

JilNan, China Graduates take photo

ChengDu China Graduates, February 18

ChengDu, China, class room, (look familiar)

IARFC Hong Kong and Macau Centre, City University of Macau and Macau Institute of Financial Services signed an agreement in January 2017 to renew their cooperation for a further term. January (L-R) Dr. Teresa So, Chairman, Hong Kong and Macau, IARFC, Professor Shu Guang Zhang, Rector of City University of Macau, Mr. António José Félix Pontes, Chairman of the Executive Board of Macau Institute of Financial Services

At the RFC Graduation and Conferment Ceremony on March 11, 2017 in Macau, Dr. Teresa So, commented: "On behalf of IARFC, I would like to thank City University of Macau and Macau Institute of Financial Services for being friendly, cooperative and supportive partners in the past years in the development of the RFC professional designations and related education programs in Macau. In January, we, the three partners, signed an agreement to renew our cooperation for a further term. IARFC is thankful to this arrangement and looks forward to the fruitful continuation of our harmonious and constructive cooperation. IARFC is honored to play a part in the advancement of Financial Planning in Macau."

Upcoming Events

April and May, 2017

IARFC Taiwan
RFC® Education Programs

Macau, March 11, Keynote Speaker, Dr. Yinggui Wang, Associate Professor, Faculty of Business, City University of Macau delivers speech "Excel at Your Job"

Macau Graduation, March 11 (Front L-R) Ms. Chen Fen, Dr. Vincent Huen, Professor Sean Li, Dr. Teresa So, Professor Shu Guang Zhang, Mr. António José Félix Pontes, Mr. Chris Ma, Ms. Manda Chan, Mr. Lao Kam Chio, Mr. David Lo; (Back L-R) Dr. Yinggui Wang, Professor Rui Rocha, Dr. Eva Khong, Ms. Evelyn Kun, Mr. Allan Wan)

IARFC Viewpoint

The Register tap's into the experience and viewpoints of the IARFC and MRFC Board. They come together from different backgrounds, with different goals and expressing different opinions. The constant is the respect and dedication given to their commitment to the IARFC.

Current Events that Affect Your Practice

The Main Worry
Clients are much more politically savvy and offer many opinions. They tend to question executive orders – particularly in how it affects the stock market. One example was the pre-election decline in pharmaceutical and biotechnology stocks due to candidates declaring the growth in drug price increases.

Or more recently, the healthcare bill that was pulled off due to lack of votes has affected the drug company stocks which changes our recommendations to client portfolios. In early 2016 we allocated 10-15% of a client's portfolio to healthcare. Now it has been reduced to 5-8% allocation.

This then drives our client's main worry – will they have enough money to retire? As a result, they have purchased variable annuities yielding income guarantees. Regardless of market performance, these products will yield an income that cannot decline and may increase with market performance.

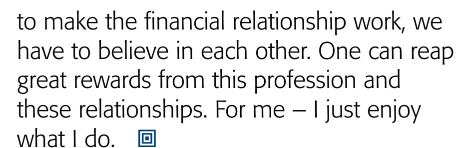
Current DOL Regulations – Helpful or Hurtful?
People's 401(k)s are typically the largest asset in lieu of traditional retirement programs of the past. These products come with income riders that are subject to the DOL regulations and now need a BICE – Best Interest of Client Exemption. That is going to narrow down options to Joe America because consultants do not want to deal with low-end business. More time required and additional liability causes the financial professionals to walk away from this segment of clientele. Why take the same liability and spend as much time on a $100,000AUM vs $1,000,000? I feel the DOL is poking its nose in where it does not belong.

Ethical Concerns? – Keep the Client in Control
We have always maintained Ethical Behavior and Full Disclosure even before Broker/Dealer requirements. When formulating a financial plan, I am honest about the good and bad particulars of an investment. There is no "perfect" scenario and the client has to decide whether they can live with the good and the not so good. It is their decision.

Prioritizing with the client their top financial goals and then attacking the first three, keeps the client invested in the process. Involvement and empathy help them relax. Sometimes I find myself more a counselor than consultant.

Accessibility allows for control. We encourage them to contact us, the mutual fund company and the Broker/Dealer. I personally talk with these institutions so I can point the client to information on pertinent websites. This removes the mystery and keeps them involved. I particularly feel this transparency is important for the seniors with whom I work. They don't have too many places to turn.

No Music No Dance
Over the years I have appreciated the chemistry of consulting. That means in order to make the financial relationship work, we have to believe in each other. One can reap great rewards from this profession and these relationships. For me – I just enjoy what I do.



Louise Fallica, RFC®

Louise Fallica, RFC® represents over a quarter century of experience in financial services. Ms. Fallica served on the Board of Directors of the Association of Professional Financial Consultants as Vice President of Education and is a member of the International Association of Registered Financial Consultants, Financial Planning Association and the National Association of Insurance and Financial Advisors.

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Louise Fallica is a Registered Representative offering securities through American Portfolios Financial Services, Inc. (APFS) Member FINRA/SIPC. Investment Advisory Services offered through PPS Advisors, Inc. SEC Registered Investment Advisor. PPS Advisors, Inc. is not affiliated with APFS.

Two Distinct Retirement Income Philosophies

Retirement income planning is still a relatively new field within personal finance. Not all of the kinks have been worked out, and two dueling paradigms with contrary views exist about how to best approach retirement planning. Advocates of each of these schools of thought often talk past one another with opposite answers for basic and fundamental clients questions. As theories about retirement income planning continue to develop, it is important that those working with clients have a basic understanding of both viewpoints so they can speak on the same wavelength as their clients and prospective clients. This is true even if, after careful reflection, one builds their practice in terms of one of the schools.

The two schools are probability-based and safety-first. The probability-based school has the most in common with systematic withdrawals from investments. The idea is to diversify investments based on a client's willingness to endure market volatility, with an emphasis on managing the total return of the client's portfolio. Withdrawals can include interest, dividends, and principal, and one seeks a conservative withdrawal strategy that will avoid portfolio depletion.

"I sometimes feel a little schizophrenic when thinking about how I help clients plan for retirement." – Kathy, a financial planner

At the other end, an essential-versus-discretionary income approach represents safety-first. Investments with fixed maturity dates or income guarantees are selected to fund essential expenses. A mix of more volatile investments with greater upside (and downside) are used to fund the discretionary expenses.

A third strategy, time segmentation, seeks a compromise, though in practice it tends to share more characteristics of probability-based thinking. With time-based segmentation, separate pools of investments are set up based on time horizon. Low-risk fixed income investments are used to fund the entire lifestyle spending goals in the near-term horizon. Meanwhile, distant spending goals are covered by more aggressive investments with greater growth potential. As time passes, growth assets are sold to extend the fixed income ladder covering upcoming expenses.

Origins of the Schools

The probability-based school of thought developed as an empirical investigation by practitioners and planners in the 1990s. Notably, in a 1994 article, William Bengen looked at a hypothetical individual retiring at different points in history and found that just over 4% of retirement date assets, with this amount adjusted for subsequent inflation, was the most one could sustainably spend over 30 years from a balanced portfolio of stock and bond funds in the worst-case scenario from history. Subsequently, an entire cottage industry developed around the idea of the 4% rule as a basic rule of thumb to guide retirement income planning. Its key perspectives on managing risks for a successful retirement include portfolio diversification as it relates to modern portfolio theory, and precautionary savings

as connected to the idea of saving enough to meet goals with a conservative withdrawal strategy over a long planning horizon. Key names associated with the probability-based approach include Michael Kitces, Jonathan Guyton, William Bengen, and Harold Evensky.

Meanwhile, the safety-first school arguably has roots going back much further in history, though it is still playing a game of catch-up in the public's mind as an alternative to the 4% rule. It is based on the academic model of lifecycle finance which focuses on how individuals allocate their limited resources over an uncertain lifetime to obtain the most lifetime satisfaction possible. The key argument for the safety-first school is that risk management for retirement must extend beyond diversification and precautionary saving to also encompass hedging and insurance.

With these basics, let's look at four important questions in which advocates for each school provide opposing answers.

Are financial goals prioritized?
For the probability-based approach, financial goals tend not to be prioritized. The view is that a client has an overall lifestyle goal in mind, and failure to meet that goal will represent an unsuccessful retirement in the client's mind. It is difficult in practice to distinguish between wants and needs, and efforts to dedicate more resources to lock in spending for needs may eliminate the possibility for obtaining enough upside portfolio growth to cover wants.

In contrast, prioritization is key to safety-first planning. Modern Retirement Theory illustrates this with its hierarchical funding pyramid for base expenses, contingencies, discretionary expenses, and legacy. Advisors should climb upward with their clients ensuring that assets with appropriate risk characteristics are matched to lower levels before reaching to higher levels of the pyramid.

How is an investment portfolio constructed?
For the probability-based approach, portfolio construction focuses on maximizing returns subject to client risk tolerance as it relates to return volatility. This means being as aggressive as the client can stomach, as the growth potential from stocks helps to reduce the probability of asset depletion. The chance for stocks to outperform bonds grows as the planning horizon lengthens. The traditional tools of modern portfolio theory are relevant, as single-period wealth management techniques are assumed to extrapolate over the long-term.

With safety-first, the portfolio construction process is completely different, as the focus is on meeting spending goals over an uncertain time horizon, and this does not always have a direct correspondence to what might maximize wealth. The relationships between upside and downside become more complicated. Risk is not a temporary portfolio loss, but a permanent reduction to the client's lifestyle. In a sense, modern portfolio is a limited case only applying to infinitely lived institutions with no withdrawal needs. For households, an income floor must be considered before seeking upside wealth maximization.

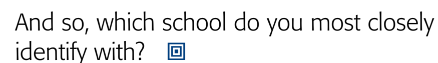
Financial goal prioritization is intricately tied into the investment approach, as safety-first advocates use the concept of asset-liability matching to link the risk characteristics between assets and financial goals. In the words of Modern Retirement Theory, basic needs should be covered with assets that are "secure, stable, and sustainable." This may include Social Security, bond ladders, and income annuities. Volatile (and hopefully higher returning) assets are not appropriate for covering these basic needs. But they may be suitable for discretionary expenses for which there is some flexibility about whether the spending can be achieved. Advocates do view stocks as growing in risk over longer time horizons, as the depth to which stocks may plunge in the worst-case scenarios grows with time.

What is the role of household assets and liabilities?
The probability-based approach generally focuses only on financial assets, with the implicit assumption that financial portfolio depletion will have catastrophic consequences for the client.

Meanwhile, the safety-first school incorporates the entire retiree balance sheet, also including Social Security and pensions, part-time work, family resources and so forth. Asset allocation for the financial portfolio cannot be determined without knowing the client's capacity for risk, and this requires knowledge of all household resources. The availability of resources to fall back on from outside the portfolio provide the client with a greater capacity to invest and spend more aggressively.

What is the safe withdrawal rate from a diversified portfolio of volatile assets?
Probability-based advocates are more comfortable basing spending decisions on what would have worked in the historical record. As noted, historically in the United States, a 4% initial withdrawal rate would have worked, and with an additional allocation to small-capitalization stocks, even 4.5% has been historically sustainable. Focusing on the probability of asset depletion, the historical record has also suggested that a more aggressive asset allocation improves a client's chances for success. The basic story has remained the same since William Bengen's initial article in which he suggested a stock allocation between 50 and 75%, but as close as possible to 75%. As this has held up during the Great Depression and the inflationary stagnation of the 1970s, advocates have suggested it may be irresponsible to increase client conservatism beyond this to plan for even more extreme investing environments.

For safety-first advocates, the concept of a safe withdrawal rate from a volatile portfolio is inappropriate, at least in the context of meeting basic needs. Retirees only have one opportunity to experience retirement and failure is not an option. Essentially, it is not possible to use asset diversification to safely secure a constant spending stream from a portfolio of volatile assets. This can only be achieved through hedging with bond ladders and risk pooling with income annuities.

And so, which school do you most closely identify with? 

Wade D. Pfau, Ph.D., CFA, RFC®

Wade D. Pfau, Ph.D., CFA, RFC® is a professor of retirement income at The American College in Bryn Mawr, PA, and a principal at McLean Asset Management. He is also a co-editor of the *Journal of Personal Finance.*

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In Order to "Buy Low"… You MUST "Sell High" First

If you go back to our early years of education, some of the most elementary principles we learned along the way were;

1. What goes up must come down
2. Every action has an equal and opposite
3. Trees don't grow to the sky

These principles can be easily transferred to stock market investing, particularly as it relates to today (and every other major Bull Market throughout history).

What is a Market?
As I searched for the definition of the word "market", here is the best definition I found from www.businessdictionary.com;

"An actual or nominal place where forces of demand and supply operate, and where buyers and sellers interact (directly or through intermediaries) to trade goods, services, or contracts or instruments, for money or barter.

Markets include mechanisms or means for (1) determining price of the traded item, (2) communicating the price information, (3) facilitating deals and transactions, and (4) effecting distribution. The market for a particular item is made up of existing and potential customers who need it and have the ability and willingness to pay for it."

There are many kinds of markets. For example, there is the stock market, the bond market, the gold or silver market, the real estate market, the international market.

With regards to the stock market, here are some similar elementary principles we have learned along the way:

1. Historically, the stock market spends about 50% of its time rising and 50% declining
2. Every long-term Bull Market is followed by a great Bear Market, and vice versa
3. The key to successful long-term investing is to "buy low and sell high"

Avoiding Large Losses is the Key
Throughout my entire career as an investment professional, I have consistently made the following statement;

"90% of successful investing comes from avoiding large losses"

The significance of such an all-important statement is rarely understood or spoken about. When I say make this statement to my clients, their first thought and/or reaction is usually; *"That's great because I don't like losing money."*

Sure, I fully understand my clients disdain for suffering large losses in their investment portfolios. However, if the sole investment objective of my client's is not losing money, they certainly don't need my help. There are many ways my clients can accomplish this on their own, such as buying government-backed securities, CD's, money market, etc.

Although avoiding large losses is one of my key roles, my primary objective is to help my clients significantly grow their wealth over time. But here's the deal. You can't have one without the other.

A Stock Market Fortune. Really?
I believe the reason clients hire me is to avoid large losses — with the ultimate objective of meaningfully growing their precious, hard-earned wealth over time. In fact, this may sound like an extreme statement, but I believe my objective is to help my clients multiply their wealth over time and, in doing so, create stock market fortunes.

Can you really multiply wealth through stock market investing and create fortunes? Yes, you absolutely can. The stock market is an incredible investment medium that affords powerful mathematical advantages that can literally create lifestyle-changing fortunes for our clients, as well as many generations to come.

If you don't believe that making millions and billions from stock market investing is truly attainable, just ask the legendary investor Warren Buffet. How did Mr. Buffet become a multi-billionaire and one of the richest people in the world? Answer: Solely through successful stock market investing.

However, here is the real message and lesson from Warren Buffet. Since Mr. Buffet is one of the people in the world whose billions are solely attributed to stock market investing, what does that tell us? It illustrates three very important facts:

1. Only a tiny minority of investors experience stock market fortunes
2. The stock market is one of the most competitive marketplaces
3. Extraordinary investment results don't happen in ordinary ways

Investing and Mathematical Advantages
The stock market is an incredible investment medium that offers tremendous mathematical advantages. How so? Because investment losses are arithmetic, whereas growth potentials are geometric/exponential. If you want to achieve significant long-term investment success, this is an extremely important concept to understand and, more importantly, implement and capitalize on.

Losses are Arithmetic
This simply means losses are "dollar for dollar". In other words, if you own an investment that declines 50%, you will lose an equally proportionate 50% of your money. When it comes to investing, you typically cannot lose more than 100% of your original investment capital. Most stock prices don't drop to zero, nor do the major market indices. However, it is not uncommon for equities and the major market indices to experience periods where they decline 40-80%. (Note: There are advanced investment strategies where you can lose more than 100%, but those are not the focus of this discussion.)

Growth Potentials are Geometric/ Exponential
This simply means growth potentials are limitless. In other words, equity prices really don't have a limit on how high they can climb. This means stock market investing offers every investor and investment professional the potential to compound and multiply their wealth — in a geometric/ exponential way.

To help illustrate, here are four examples:

1. If $1 Million drops to $500,000 – this is a 50% loss (arithmetic) If $500,000 grows back to $1 Million — this is a 100% gain (geometric/exponential)

2. If a $100 stock drops to $20 — this is an 80% loss (arithmetic) — If a $20 stock grows back to $100 — this is a 400% gain (geometric/exponential)

3. If you achieve a compounded return of 15% for 15 years (net of fees) — $100,000 grows to $813,700 (geometric/exponential)

4. If you achieve a compounded return of 20% for 15 years (net of fees) — $100,000 grows to $1,540,700 (geometric/exponential)

The Key is Avoiding Large Losses
The reason I have always stated that "90% of long-term investment success comes from avoiding large losses" is because;

1. Bear Markets should be welcomed rather than feared. Bear Markets are amazing "buy low" investment blessings. They provide the opportunity to invest when prices, values, and risks are low — and the growth potentials are extraordinarily high.

2. If clients experience large losses, they can't "buy low". If they are invested in the stock market, they only have two options — get out or stay in.

3. Part of the process of managing money is protecting it. The large majority of investors and investment professionals believe they must always be invested in the stock market. However, if we all know the key to long-term investment success is to "buy low and sell high", how can we buy low if we don't sell high — first? To "buy low", you need investment capital readily available, right? This means there are times when it is perfectly OK and reasonable to:

a. Stay out of the stock market
b. "Sell high" and sit on the sidelines for an extended period
c. Focus on protecting and preserving wealth, and patiently wait for a better "buy low" investment opportunity

Where is the Stock Market Today?
Nobody can accurately predict the stock market's short-term movements, and nobody can accurately predict stock market tops or bottoms either.

However, I have always stated that major long-term stock market trend changes can be recognized. How so? As previously noted, the key ingredient that drives the stock market's long-term price structure is buyers (demand) and sellers (supply).

At some point, every Bull Market reaches a point where;

- Prices have risen geometrically/ exponentially for a prolonged period
- The large majority of investors are in the stock market, or entering
- The media and news background are predominantly positive
- There is an over-abundance of buyers, and a scarcity of sellers
- Prices climb exponentially higher and, accordingly, risks climb higher
- The Federal Reserve Board changes their policies and becomes restrictive
- Something creates a change in the long-term forces of supply and demand

I am fully confident today's Bull Market is in the process of a long-term trend change. I have absolutely no idea when the next Bear Market will begin or end, and quite frankly nobody does. However, I do firmly believe we will look back upon today's stock market environment and view it as a "sell high" time frame.

If I am correct about the stock market's "big picture", the only way to capitalize on the next rarely-afforded "buy low" opportunity is to:
1. "Sell high" and avoid large losses
2. Have your investment capital ready (out of the market) to "buy low"

Extraordinary results rarely happen in ordinary ways. So here is the million-dollar question for every investment professional and wealth manager; *"What is your current plan to help your clients avoid the potential for large losses?"*

Christopher P. Hill, RFC®

Christopher P. Hill, RFC®, is the President of Wealth and Income Group LLC, with multiple branch offices in Virginia. Chris began his 28-year career in the financial services industry by spending his summers as a college intern for a major stockbrokerage firm. After graduating college with a B.S. in Finance, he spent over a decade working with the Senior Portfolio Manager of a leading money management firm. In 2001 Chris formed his own company with a primary focus on wealth management.

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IARFC

National Financial Plan Competition 2018

Be Part of the Future

Molly Funk, student competitor and 2016 Winner from Bryant University

The IARFC has extended its invitation to students to participate in the 2018 National Financial Plan Competition. The finalists and their faculty advisor will present their comprehensive financial plans to a live audience. We invite the IARFC members to join the competition at the Biltmore Complex in Asheville, NC and become part of the judging process.

Biltmore Estate, Asheville, NC

The National Financial Plan Competition is organized through the IARFC for undergraduate students in a curriculum related to Financial Services. Participants are given a case study of a fictional family with an overview of their financial picture. A financial plan is then produced with recommendations for current and future action. These plans are sent to the IARFC headquarters for an initial round of judging. From this group of entries, six are chosen to be presented electronically with the three semi-final winners going forward to present their plans in person at an IARFC event.

Expenses incurred by participating in the judging of the Financial Plan Competition are not the responsibility of the IARFC.

Become a 2018 Sponsor

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☐ Send more information on Corporate Sponsorship.
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The **IARFC Conference** & National Financial Plan Competition

at the **BILTMORE Estate,** Asheville, NC April 17-19, 2018

To learn more call 800.532.9060 or visit www.IARFC.org

Education **Experience** **Integrity**