751 Route 73 North
Suite 5
Marlton, NJ 08053
856.673.4150
Sonsteinfinancial.com

January 2017

Many American households are vexed by their financial condition. They feel like they don't have enough money, carry more debt than they should, are underfunded for retirement or their kids' college education, and aren't confident about their futures.

The financial experts – i.e., economists, researchers, and policymakers - will point to behavior flaws, a culture of consumption, financial illiteracy, misguided government policies, globalization, technology, systemic inequalities, the "one-percenters," and a hundred other external factors as causes of this distress.

But offering hundreds of reasons why things are the way they are doesn't add up to one solution. If you want to improve your financial standing right now, you might be ready for a conversation with someone who can tell it to you straight, and give you a no-nonsense blueprint for financial progress. It's time to talk with a financial "Dutch Uncle."

Who's the Dutch Uncle?

The dictionary describes a Dutch Uncle as "a person giving firm but benevolent advice." Another source adds these details:

A Dutch Uncle is someone who has close enough standing to speak plainly and severely without too fine a regard for the listener's feelings. However, the admonishment or education is given with sincerity and often with benevolent intent, as though from an elder relative, or "uncle."

The term originated in the mid-1600s, when England and Holland engaged in several wars, and a "Dutch" adjective was a way for the English to disparage their enemy. Thus, a "Dutch Uncle" was the reverse of the avuncular stereotype; he was not indulgent and permissive. By the time the term became part of the American vernacular in the early 1800s, a Dutch Uncle had evolved into a generally positive connotation for someone who offers straightforward, often uncomfortable, and sometimes unsolicited commentary.

Some 'Firm but Benevolent Advice'

When it comes to personal finance, the Dutch Uncle isn't interested in who, or what, is to blame for your past money struggles. Instead, a financial Dutch Uncle cuts through the fluff to offer some "firm but benevolent advice" that can be acted on immediately. Here's where he begins:

You must structure your personal finances so that you are saving at least 15 percent of your income. If you can't get the business that is your personal finances to show a 15 percent profit, progress will be difficult, if not impossible.

Is 15 percent arbitrary? Sort of, but the Dutch Uncle doesn't care. You might make do with a lower percentage, but the Dutch Uncle knows 15 percent works.

The Dutch Uncle also knows that as soon as he establishes a financial benchmark, cynics will dispute its validity. The Dutch Uncle has heard it all before, and he's not fazed. In fact, he can pre-emptively dismiss these objections. For example…

In This Issue…

* The title of this newsletter should in no way be construed that the strategies/information in these articles are guaranteed to be successful. The reader should discuss any financial strategies presented in this newsletter with a licensed financial professional.

The Dutch Uncle knows that as soon as he says "save 15 percent of income," some wise guy will ask, "Well, what income are we talking about? Gross? After-tax? It makes a difference, you know." This is a smokescreen, obsessing over details to avoid taking action.

Somewhere on your tax return is your "adjusted gross income". Use that number. And if you're smart enough to manipulate your taxable income so your AGI understates your real income, you're smart enough to adjust your income appropriately. Don't cheat yourself.

Speaking of cheating, the 15 percent can't be padded by including "savings" that is spent a month or two later. It's absolutely true that it's better to save $500 for two months to buy a new kitchen appliance rather than put it on a credit card and pay it off over two years, with interest. But that $1,000 isn't "saving," it's simply intelligent spending. "Saving" is money allocated to long-term financial projects, money that you're not planning to spend in the next five years.

And no, you can't count the principal portion of your mortgage payments as savings. That equity is not liquid, and if the housing market goes south (remember 2008?), it won't be there. Same goes for the principal in your car payments. If you're driving it, it's not savings.

But the Dutch Uncle is willing to include your "income insurance" premiums as part of your 15 percent. Life and disability insurance can either preserve or complete your saving plans if something goes awry. The Dutch Uncle is a realist: Plan A's don't always work, and you can't afford to operate without a Plan B.

This is basic stuff. But the Dutch Uncle knows a key element in successful financial management is having funds to manage. Saving 15 percent of income makes financial management possible.

Here's How

At this point, you concede. "Okay, I get it. *Not* saving 15 percent of my income probably has a lot to do with my lack of financial progress. So what do I do?"

The Dutch Uncle knows that unless you started your working life with limited obligations and a high income, 15 percent can be a struggle. If you're just starting a career and a family, owe on student loans, and need an automobile for work, your basic living expenses are going to make it difficult, if not impossible, to save 15 percent immediately.

But the Dutch Uncle also knows it won't get easier if you wait. Kids get more expensive, not less. Same with your cost of living. If you take on debt to meet today's needs, saving gets even harder. At some point, you're going to have to make a decision: Either adopt a plan that eventually makes saving 15 percent doable, or admit that you're hoping for a miracle, like winning the lottery, having one of your kids play professional sports, or becoming a YouTube sensation.

The Dutch Uncle knows that hoping for a miracle most likely means more financial struggle. And you know it too. If you want to change, the options are straightforward, at least from the Dutch Uncle's perspective.

Reassess your career path. Sometimes the answer to your financial stress is "earn more money." This is tough, because changing careers may require going backward (back to school, back to a lower income, maybe even back to living with your parents) before eventually moving forward with more income.

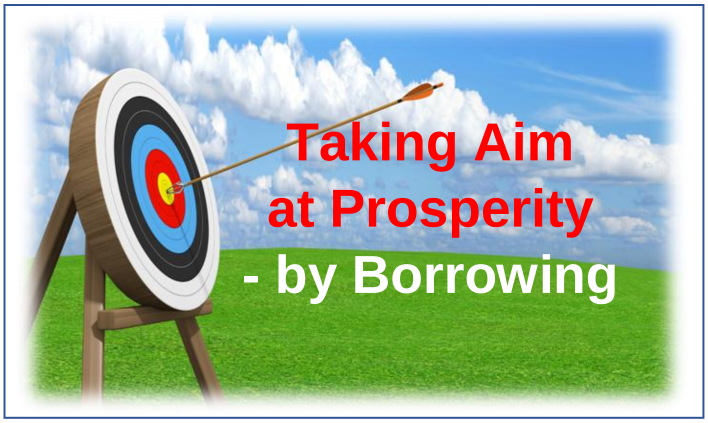
Restructure your debt. In isolation, the choice between a 15- and 30-year mortgage seems simple; the shorter term with less interest is better. But every dollar obligated to someone else is a dollar you don't control. Even if it means it will take longer to eliminate your current debt, the sooner you gain control over a greater percentage of your cash flow, the better.

Make some hard lifestyle decisions. Every financial decision is a balancing act between immediate and delayed gratification. Some things are immediate and necessary – food, shelter, safety. Some things are immediate and non-essential – a movie, a night out, a vacation – but also worthwhile. A Dutch Uncle might seem like a hard nose, but he appreciates that not all gratification should be delayed. At the same time, the interplay between necessities and luxuries will always exist. Too much indulgence today can make necessities problematic in the future.

Get input from financial professionals. Whatever you're saving right now, you have income, housing and transportation costs, insurance, and debt. Professional assistance might help you finance a career change, rewrite your mortgage, decide to buy or lease the next car, maximize your insurance benefits, and transfer balances to a lower-interest credit card. You might be surprised how a clean-up of your existing transactions can "find" money that can added to savings.

Some might disagree with the Dutch Uncle's focus on improving cash flow to save 15 percent of income. But be truthful about your own situation: Would your financial life improve if you were saving 15 percent? Yeah, the Dutch Uncle thought so.

If this advice applies to you, or someone you know, the next step is to schedule time with a few financial professionals to uncover ways you can aim for the 15 percent savings target. Remember, successful financial management starts with something to manage. ❖



The essential function in all successful personal finance programs is saving. But while it is essential, saving alone may not be enough. The following article takes several shots at explaining how borrowing – which many people perceive as the opposite of saving – can "turbocharge" your finances.

There are two ways to accumulate wealth. One is to save, the other is to borrow. Of the two approaches, saving is easier to understand and execute. But borrowing (done right) may yield better returns.

Yeah, a bunch of financial "experts" just choked on their morning Starbucks in shock and outrage. You can almost hear the wailing: "*When the average American consumer has over $16,000 in credit card debt, the median 401(k) balance is less than $30,000, and personal bankruptcies are coming off an all-time high, how could anyone responsibly recommend borrowing as a suitable financial strategy? People borrow enough already – they need to save, not borrow more!*"

Those statements may be accurate, but that doesn't change the first bullet point: Borrowing to accumulate wealth is a time-tested strategy; the history of almost all great fortunes includes borrowing.

So after cleaning up their spills, the experts should read on…

There is a difference between "good" borrowing and "bad" borrowing.

This difference is summarized in the following axiom:

Borrow to multiply assets,
not to satisfy consumption desires.

For most Americans, a good portion of their borrowing is for consumption – the "assets" they acquire through borrowing will be used up, not multiplied. Think of the reasons people have $16,000 balances on their credit cards:

1. They had an immediate need (kids' school clothes, a medical situation, etc.); or
2. They wanted something now and didn't have the money, but didn't want to wait (a new outfit, a weekend vacation, an HD television). When you borrow because you can't meet your present financial obligations, it's "bad" borrowing. When you decide to borrow because you can't handle delayed gratification, that's bad borrowing, too.

Even some prevalent forms of "approved" debt are tainted by bad borrowing. A case can be made that both automobiles and personal residences qualify as assets – a car is an essential tool for earning an income, and most homes have the expectation of appreciation. But when you decide you will "step up to luxury" because a loan for a deluxe model is only $100 more each month, is that really "good" borrowing? If borrowing an additional $200,000 puts you in an exclusive subdivision, is it a wealth-building move or simply ego gratification? Borrowing more to buy a nicer car or a bigger home does not usually lead to a corresponding increase in net worth.

The key component in "good" borrowing is the financial leverage it creates.

Financial leverage refers to the use of debt to acquire additional assets. Borrowing allows you to control an asset – and benefit from its value – without paying the full price. Of course, in exchange for control you must also assume the obligation to repay the loan that made the leverage possible.

Here's a very simple hypothetical example:

A. On January 1, 2017, you place $100,000 in an accumulation account. In the upcoming year, the account generates a return of 8%. Thus, on December 31, 2017, the account will have ending value of $108,000.

or…

B. On January 1, 2017, you purchase a $500,000 commercial building by making a $100,000 down payment and borrowing $400,000. During the course of the year, the rent you receive from the tenants is just enough to cover your mortgage payments, taxes and maintenance expenses. The commercial property market is not booming, but stable. By December 31, 2017, values are up 2%, meaning your building is now worth $510,000. Along with a very small decrease in mortgage principal in the first year, your net equity is slightly over $110,000, an increase of more than $10,000.

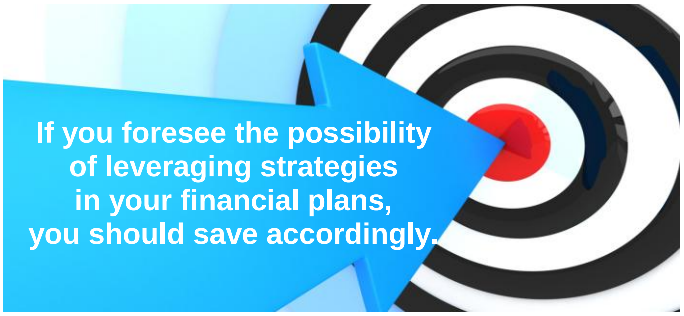
Both transactions involve a $100,000 investment. But with leverage (made possible by borrowing), a 2% annual return from the real estate investment was better than the 8% generated by an accumulation/saving instrument – because the 2% was applied to $500,000 while the 8% accrued on $100,000. This is the power of leverage.

This simple illustration is not an apples-to-apples comparison that proves borrowing is better than saving. Saving and borrowing have different variables.

In the previous example, a deposit to an accumulation account typically does not require any day-to-day oversight by the account owner. If the instrument promises a guaranteed rate of return, investment risk is minimal as well, and many types of accounts can be liquidated on demand.

Not so for the building owner. Tenancy is not guaranteed; keeping the building full may require pricing decisions, marketing, and out-of-pocket remodeling costs. If rents are low, savings or other assets may have to be tapped to meet monthly mortgage obligations. And under most circumstances, real estate is not easy to liquidate. (On the other hand, positive cash flow from rents could further enhance returns from financial leverage.)

Real estate isn't the only situation where financial leverage can generate greater prosperity. Borrowing to buy new equipment may increase production and profits. An investor may use leverage to buy a business, controlling all of its revenues with a small buy-in.



And the power of financial leverage isn't just that a small outlay can control a larger asset. There is also a time element: saving has opportunity costs. How much profit is lost if a business waits five years in order to pay cash for equipment that could be producing today? Even when factoring the costs of borrowing, immediate gains may be greater than future returns after waiting to pay cash.

Which leads to another twist on the interplay between borrowing and saving…

To use good borrowing strategies, you may want to change the way you save.

Borrowing-for-assets strategies can be complex – both to execute and evaluate. But regardless of the details, there is no leverage opportunity for the borrower unless a lender believes its loans will be repaid. If you foresee the possibility of leveraging strategies in your financial plans, you should save accordingly.

Many borrowing transactions include down payments, lump sums that are transferred at the time of purchase. Where should these amounts be accumulated and held? Probably not in vehicles that incur withdrawal charges if liquidated before an arbitrary maturity date. Probably not in a qualified retirement plan (like an IRA or 401(k)), with tax penalties for early withdrawals, and restrictive loan provisions. And probably not in instruments whose value fluctuates frequently, or that require long holding periods to dampen that volatility.

In an ideal leverage scenario, a loan would be repaid from the revenues generated by the asset acquired; borrowing costs would be covered by profits. But buildings are sometimes not fully occupied, and business income doesn't always flow in a steady stream. Because sustaining a leveraged investment may require additional funds, prudent borrowers maintain cash reserves.

Stashing some money in a safe, liquid saving vehicle may mean foregoing some opportunities for higher investment returns, but protecting a leveraged opportunity should be worth it. When borrowing results in foreclosures and repossessions, these are not profitable transactions.

Good borrowers have assets to multiply.

If borrowing for financial leverage is such a powerful idea, why doesn't everyone do it? Why aren't more people buying commercial real estate, expanding businesses, etc.? As was mentioned earlier, lenders make loans under the belief they will be repaid. It's sort of a rich-get-richer situation, but the best borrowing candidates are the ones who already have assets. In other words, they've done some saving first.

It is appropriate to note that borrowing for prosperity can work for those who don't have financial assets. Some people have what might be characterized as intangible assets: They have an idea, a skill, or product that could become profitable through expansion or duplication. Instead of making five widgets a week, a new factory could produce 50 – at a lower cost. Or one store could become a chain of six, multiplying sales while achieving economies of scale.

But if you haven't accumulated financial assets to buffer the uncertainties that come from attempting to leverage prosperity, borrowing on such a narrow margin for financial error can be ruinous. Accumulated savings are insurance against leveraging hiccups.

Do you have assets to multiply?

Are you saving in a way that you could take advantage of a borrowing/leverage opportunity if it came along? ❖

This entire article is intended to get you to click on a link and watch a two-and-a-half minute video.

Here's the link:
https://glic.wistia.com/medias/blateobmza

Alternately, you can watch it on YouTube:
https://www.youtube.com/watch?v=4gfHVKzPsSY&t=3s

If you've clicked and viewed, you probably don't have to read any further. But, just in case, here's additional information, to persuade you to watch, or provide some background commentary.

Disability Is Real

The video, "Better Together," is from Guardian Life Insurance Company, a prominent disability insurance provider in the medical professional marketplace. Guardian posted this video on YouTube in November 2015, and more than a year later, there have been less than 600 views. Frankly, that's a shame.

Dr. Vincent Tullos is a doctor from Baton Rouge, Louisiana, who in August 2013 experienced a stroke. The impact of this life-changing health incident is reflected in Dr. Tullos' speech which, combined with his Southern drawl, makes his story even more poignant. Several points stand out:

First, the video is a dramatic testament to the impact of a life-altering medical event. A common after-effect of a stroke is greater emotionality, so when Dr. Tullos speaks, you get an almost visceral feel for the turmoil that comes from a disabling incident.

For some people, disability is hard to imagine, something "that won't happen to me," or "won't keep me from working." In the first 30 seconds of Dr. Tullos' story, that abstraction is gone. Viewers "feel" the sobering reality of what a disability is like.

Second, the video illustrates the incalculable benefit of income protection in the form of life and disability insurance. Sure, there is a dollar amount that defines the monthly benefit. But when you see and hear Dr. Tullos express his gratitude for his disability and life insurance protection, it's obvious the real benefit is peace of mind. Of all the struggles Dr. Tullos has faced, and will face, post-stroke, earning an income isn't one of them.

Third, if it hadn't been for the sincere persistence of Travis St. Pierre, Dr. Tullos might not have purchased the insurance. When Dr. Tullos said he couldn't afford the premiums, Mr. St. Pierre insisted "you can't afford not to." The skeptical might dismiss St. Pierre's response as a pat line intended to close a sale, but the rest of the conversation on the video speaks otherwise; Mr. St. Pierre comes across as a dedicated professional who has not only Dr. Tullos' gratitude but respect.

A long-held principle in the insurance industry is that people don't buy insurance, it has to be sold. In this situation, a financial professional took the time to not only present the product, but persuade Dr. Tullos that this purchase was essential for his financial well-being.

Are you someone who should have individual disability insurance?

The disability income protection referenced in this video was provided by an individual policy, not group coverage from an employer. And while individual policies may be more expensive, they also contain favorable definitions of disability, and are typically non-cancellable and guaranteed renewable, meaning as long as the premiums are paid, the protection cannot be changed or terminated.

If your career track includes the likelihood of changing employers as you advance, individual disability protection can be invaluable; wherever you go, the policy goes with you. Medical professionals are perhaps the largest market for individual disability insurance, but high-level executives, business owners and other self-employed professionals are candidates for individual policies as well. In some instances, they are the only disability option available.

Do you have a financial professional like Travis St. Pierre?

Individual disability insurance is a customized product. You select the waiting period, benefit period, occupational definitions, and whether benefits will adjust for inflation. And while disability coverage probably doesn't require constant monitoring, it should be reviewed regularly. Many policies have options to increase coverage at regular intervals; you want to be sure your protection continues to match your earnings. To get the personalization right, professional assistance is recommended.

In the event of a disability, one of the most important activities is filing a claim and getting those checks, which is not a do-it-yourself project. In a moment of vulnerability, you want to know you will be working with someone you trust to facilitate the delivery of the benefits you paid for and deserve. Dr. Tullos had a trusted professional in Mr. St. Pierre.

If you've read this far, do one last thing...

If you haven't already, watch the video once on YouTube, just to bump the view count. Then, if you remember, check back some time in February, and see if the views have crossed 1,000. This great story and powerful message deserves broader recognition. ❖

In May 1961, President Kennedy announced an initiative to safely land an American on the moon before the end of the decade, and before the Russians. The National Aeronautics and Space Administration's Apollo space flights were scheduled to meet that deadline, but encountered some serious setbacks, the worst of which came in January 1967, when a cabin fire during a launch rehearsal killed all three astronauts on board. Now, after several redesigns and tests, NASA was ready in 1968 to resume manned space flights. But before heading into space, NASA had a pragmatic financial problem to resolve.

As proven by the cabin fire, space travel was a dangerous activity, so much so that someone suggested the Apollo astronauts might want to consider getting flight insurance, sort of like the type offered at kiosks in airports. It was a good idea, but there were two problems: Insurance companies either didn't want to assume the risk, or the premiums they quoted were prohibitive.

True to their engineering spirit, someone at NASA came up with a work-around: autograph covers. In an August 2012 article on *NPR*, space historian Robert Pearlman explained an ingenious way the astronauts turned the risk of not surviving a space flight to their financial advantage.

In the 1960s, astronauts were national heroes, whose fame far exceeded most entertainers or athletes. Successful space flights were followed by ticker tape parades, visits to the White House, and appearances on the "Ed Sullivan Show." This notoriety, along with the public's awareness of the dangers of space flight created a unique "insurance" opportunity.

Prior to launch, each astronaut crew from Apollo 11 through 16 was given hundreds of postcards to sign. As famous people, **their signatures were valued by collectors**. Pearlman notes that "These astronauts had been signing autographs since the day they were announced as astronauts, and even though eBay didn't exist back then, they knew that there was a market for such things."

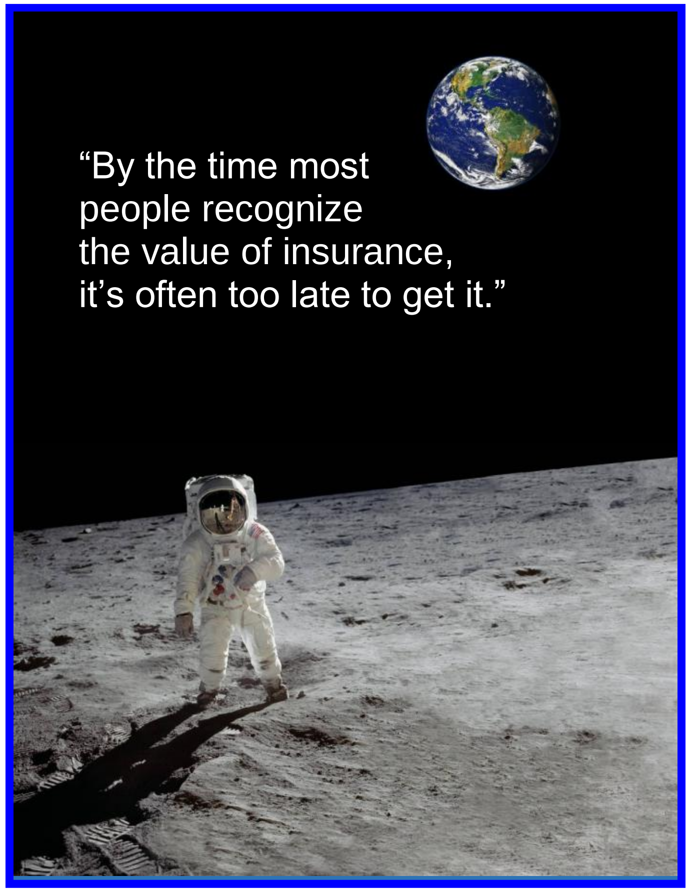
An "autograph cover" is a signed postcard that has been postmarked to coincide with a significant event. Before launch, the astronaut gave his stack of postcards to a friend, with instructions: On important days during the mission – the liftoff, the day the astronauts landed on the moon, the reentry, etc., --- a portion of the cards were to be postmarked, then given to the astronaut's family.

In the event of a fatality, autograph covers from the date of the tragedy would have immense value to collectors. "If they did not return from the moon, their families could sell them – to not just fund their day-to-day lives, but also fund their kids' college education and other life needs," says Pearlman. **It was life insurance in the form of autographs.**

Fortunately, these "life insurance covers" were not needed. Although there were some tense moments during the Apollo 13 mission, all the Apollo astronauts returned safely. And during their lifetimes, Pearlman guesses the Apollo astronauts probably signed tens of thousands more autographs, for free. Yet despite the abundance of astronaut autographs in circulation, Pearlman reports that in the 1990s some of the space flight autograph covers started showing up in memorabilia auctions, and today, an Apollo 11 insurance autograph cover (from the mission that featured the first lunar landing) has a sale price of $30,000.

Besides being an interesting bit of life insurance trivia, the Apollo insurance covers represent a unique outside-the-box solution to protecting an individual's economic value. In the case of the astronauts, it wasn't poor health that disqualified them from getting life insurance, but the dangers of their occupation. And ironically, it was the high likelihood of dying that made this "insurance" viable.

Autograph covers are a vivid example of the lengths people will go to "make insurance" when they find they can't get it any other way, and confirms the adage, "By the time most people recognize the value of insurance, it's often too late to get it." ❖



THE INSTITUTE OF RESPONSIBLE WEALTH™

Sonstein Financial Group, LLC
751 Route 73 North, Ste. 5
Marlton, NJ 08053
856-673-4150