Scott Brooks Video Transcripts

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SCOTT: All right guys. Well, welcome back. How you been?

ROY: All right, fine, good.

SCOTT: It's good to see you again. Anything new and exciting since I've seen you last?

ROY: No, we just had a lot of discussions and have some questions for you we'd like . .

SCOTT: Great.

ROY: . . to ask you if you don't mind.

SCOTT: Sure, let's go through your questions.

ROY: Sure. First one is what happens if you retire?

SCOTT: That's actually a really good question, all right? So, I'm 53 years old, all right? And I got to tell you guys something. I'm at a stage of my life today where I can actually retire now if I want to, all right? I'm pretty well done. But I don't really ever see myself retiring, and the reason behind it is I love what I do. I love this. I think I'll do this for the rest of my life, you know, because for me this is like a game, all right? You know, people have different talents, they have things that they're good at. Doctors like to do surgery. Race car drivers like to race cars. For me, I love this. You know, meeting with people, helping them put together a puzzle to solve their retirement planning and accomplish their goals. I don't really ever see myself ever retiring. I see myself doing this the rest of my life. Now, there's probably going come a point in time where I may cut back a little bit. Maybe I don't teach as many classes, although, I don't know; I love doing teaching those classes. Hopefully you guys saw that that night. I love doing that, okay? I love teaching those classes. I might cut back on new clients. I'll never turn back or turn away a referral, but, you know, I'll probably cut back on clients, but I don't know if I ever see myself retiring. You know, a better question rather than if I'm going to retire, a better question is what happens if something happens to me? What if I get hit by a Greyhound bus on the way home tonight, all right? What it something happens to me? The answer is very simple: I have a whole team of people here, a whole staff of people that you're going to meet, that you're going to know, that you're going to have a relationship with. Now, you'll know me, obviously, all right, but you'll work with me. But I'm not always going to be here. I'll with on vacation, or something will be going on, and, you know, if you need something I've got a team in place to take care of things. I've got a team of people that's been with me for a long time. I'll give you an example. I've got Mike that sits over here next door, okay? Remember, I said I'd assigned you to the Mike and Cathy team? Mike started originally with me back in 2010. He took a little trip to Florida for a while and decided he couldn't earn as much money down there as he could up here, and he came back. But Mike's been with me for a long time. I've got another guy named Andy. Andy's my Chief Operations Officer. Andy's been with me for 14 years. I have a guy that sits right behind this wall behind you here. His name is Gordon. Gordon's been with me 13 years. He's my Chief Investment Officer. He's the one who watches your portfolios all day long. I've got nine full-time total people working here including myself, and four part-time people. So, if something happens to me, my staff, we have a business continuity plan in place so that my staff can take over and continue to take care of you and serve you, all right? But, you might not like working with my staff. If that were the case, and I think you're going I like the staff, they're really good people, okay, and you'll like working with them because they're all very skilled at what they do, but if you don't like working with them, that's okay. Your money is always your money. You can take your money and leave and go find some other place if you want. Is that reasonable?

ROY: Yes.

SCOTT: Very good. Next question?

ROY: What are your fees?

SCOTT: That's a very good question. As I said last time we talked, my fees are 1.25 percent, all right? That's what I charge for fees. That's what I get, and the way it works is very simple. On the last day of the quarter, at the close of business on the last day of the quarter, the custodian will value your account, okay? Then what they'll do is they'll take the value of the account on the last day of the quarter and they'll multiply it by the annual fee of 1.25 percent and then whatever number they get, they divide by four, because it's quarterly, and they'll deduct that money from your account and they'll put it in my account, okay? And you can see this. You can go online any time you want, you can see that right there. You can see exactly what's happening with your account. Just do the math the way I described to you and it will be exactly as I said.

ROY: Okay. How do we know you're not the next Bernie Madoff?.

SCOTT: That's actually a very, very good question, all right? I get that question a lot. Here's how you know that I'm not the next Bernie Madoff. You ever see that show on CNBC called American Greed where they talk about these people who were taken advantage of by con men? You have these con men, which Bernie Madoff was the biggest con man of all-time, right? All those people who got taken advantage by these con men, including Bernie Madoff, what do they have all in common? Well, you know what they all have in common? They all have in common that they gave their money to Bernie Madoff. They gave their money to the con man. People who did business with Bernie Madoff wrote their checks to Madoff Securities, and they gave him their money, all right? I'll never touch your money. Your money, we'll never touch it at all. All of your money will be held and handled by third-party outside custodians. Now what's an outside third-party outside custodian? Like, Schwab or Fidelity Interactive Brokers, TD Ameritrade. Those are custodians. They're job is to custody your assets, okay? A custodian's job is they're entrusted to holding and custodying your assetsets. Now, your money will go up and down with a custodian, but your money is perfectly safe there, completely safe, all right? So, like the custodian that we use that we'll talk about if you have a few minutes is called Interactive Brokers. Interactive Brokers is the largest custodian in the world. You may not have heard of it, but that's okay. The reason you don't hear of it is they don't market to regular people. They market to professionals, that's why it is the biggest in the world. This is where all the professional's trade. So, your money will always be held by an outside third-pary custodian. A custodian has two main jobs that they fulfill, all right? Number one, they custody your assets. They're in charge of safeguarding your money. The second main job that they fill, is they give you a platform on which to buy, sell, and trade things. Like, for instance, the money you have at the bank. The bank is the custodian of those assets, and what they give you to buy, sell and trade are money markets, CD's, checking accounts; that's the things they offer you that you can buy and sell. Custodian does the same thing. They custody your assets, but they give you more choices. That's all. So, your money is held by an outside third-party custodian. In the accounts, the safeguards you have are as follows. There's only three basic ways that money can come out of your account. Number one: money can come out of your account in the form of a check that's only made payable to the owner of the account, so Roy Brooks or Patty Brooks, all right, and that is only mailed to the address of record. So, mailed to your home, for instance, all right? That's one way. People don't really use that anymore, because who does checks anymore, right?

ROY & PATTY: Right.

SCOTT: The second way money can come out of your account is via wires or ACH's where money is wired to your bank account. Now, this is actually a pretty good system that we have in place with Interactive Brokers. I think this is one of the safest systems out there. If you ever wanted money wired to your bank account, let's say up going to go on a vacation and you wanted us to wire money there to pay for your credit cards after you got back, okay? How would it be handled? Well, here's what Interactive Brokers does. To get into your Interactive Brokers account, what you have to do is you have to enter a user name and a password, which sounds pretty simple so far. But here's what they do next. Interactive Brokers gives you a card it looks like a credit card. They call it a bingo card. On this card, on both sides of it, there are 240 three-digit alphanumeric numbers like A7Q or 74B, okay? There's always these numbers on there. After you enter your user name and password, a little box will pop up that will have two numbers in it. You'll see like number 17 and number 122. You'll look at your bingo card, you'll look at number seven, and number seven is AB7, so you enter AB7 and then number 123 you'll look at, and you go number 123 is number Q4L, and you'll enter Q4L. And then that will let you into your account. That's pretty secure.

PATTY: Yeah.

SCOTT: Now, how do you know that somebody's not going to be able to say, well that's pretty hard to get into that to have all that information is almost impossible. Then the next thing Interactive Brokers does is before they wire the money to your bank account, what they do is they do two small wire orders. They verify with your bank that the account is in your name and the Social Security numbers match up. Then what they'll do is they'll wire 17¢ and 3¢ to your bank account, or whatever numbers they wire. Then you have to go into your bank account, look and see what those numbers are, 17¢ and 3¢. After you've then logged into your Interactive Brokers account, entered all your information, user name and your password on your bingo card, there's going to be an alert, you click on the alert and the alert will say "Enter Wire Amounts." So, you'll enter .17 and .03, that was the wire amounts, and that way they'll confirm that that was the right bank account and you were able to get into it. So, they confirm it's done, they'll take back the 17¢ and 3¢, and then they'll wire you the amount of money that you requested. But it's a very good system to really protect you. It's a system that I'm very, very pleased with. So, the ultimate answer to your question is, we'll never touch your money.

ROY: Can we see our investments?

SCOTT: You can. It's a completely transparent, open-architecture system. You can look online and see your investments 24 hours a day, 365 days a year, 366 days a year in a leap year. Your money is completely available and accessible to you at all times.

ROY: Okay. Private pensions; it sounds a lot like an annuity.

SCOTT: Yeah. Because all pensions are a form of an annuity, okay? They're all a form of an annuity, all right? And here's what I mean. Any form of income, like, for instance your pension you have through, was it the Science Center, right? Yeah. The pension you have through the Science Center, that's just a form of an annuity. It's a pot of money that's paying you a monthly check. That's just a form of an annuity. Here's the problem. I don't know if you know this or not, but 99 percent of annuities stink. You know what, that's not fair. That's not fair. Let's give annuities the benefit of the doubt. Ninety-eight percent of annuities stink, okay? Most of them aren't very good, and the reason they aren't very good is because they're laden with fees and costs and expenses. I just don't think that's right. But there's about two percent of annuities that are pretty awesome. Like, for instance your pension. That's an annuity. Would you consider that to be bad?

PATTY: No.

SCOTT: You like that, don't you? Your private pension is the same way. It falls in that category of the two percent.

ROY: Can you give me a little more information on that, because item not sure we really feel real comfortable with an annuity.

SCOTT: I can see that. A lot of people don't. But remember, I talked about how we're talking about one of those annuities that's over here in the two percent, okay? Remember you've got a bunch of investments that fall under the category of annuity. It's kind of like saying "car." Well, there's lot the bad cars. There's a lot the good cars. "Car" doesn't help you. It's an umbrella to describe a type of a vehicle. Annuities is the same way, but unfortunately, with annuities, 99 percent of them stink. I'm sorry, 98 percent of them. It's the two percent that are good. So, what I want to do, let me take a moment and kind of explain to you what I'm talking about here and why this doesn't fall under the category of the 98 percent, why it is in the two percent, okay? Let's go up to the board here I'll draw this out for you. Let's take a minute and talk about the different types of annuities so you can understand the difference between what I'm talking about, because I really do understand, you know, the distaste you have in your mouth for annuities, and there's a reason for that. Like I said, 98 percent of them stink. What I'm going to do is I'm going to describe to you the different types of annuities and why what we're talking about here is different. But I want to be clear with you about something. If the annuity is still so distasteful to you that you don't like it, that's okay. It's no problem with me. We'll just take that off the table, all right? So, don't worry about that. If you don't like it, I'm okay. I'm not going talk you into this, because we want to design the plan you want here, okay? But at least give me the benefit of the doubt that this is pretty good. So, let me show you this, okay? So, there are three basic kinds of annuities. The first type of annuity is what's known as a fixed annuity. The second type of annuity is what's known as a fixed index annuity, and the third type of annuity is what's known as a variable annuity. Now, each of these annuities has a pro and a con. So, the pro associated with the fixed annuity is this: it pays you guaranteed income for life, which, you like that, right Patty? You liked that. But the con is that in order to get that guaranteed income, you have to annuitize it. What does that mean? Whenever you annuitize an annuity, the money you put into that annuity no longer belongs to you. It's gone forever. For instance, like on your pension. Once you said send me my monthly check, does the money in that pension belong to you anymore?

PATTY: No.

SCOTT: All you get is the monthly check right?

PATTY: Right.

SCOTT: I don't think that's a good idea, right we don't want to do that. Now, a fixed index annuity, its pro is that it cannot lose money, right? Can't lose money. But the con to a fixed index annuity is that your returns are capped. Now, here's what I mean by capped. Let's say you have to fixed index annuity that has a cap on it of, let's just say three and a half percent, okay? If the market goes up ten and a half percent and you're capped at three and a half percent, what return do you make?

ROY: Three and a half percent.

SCOTT: You only get three and a half percent. Who gets the other seven?

ROY: The company.

SCOTT: The company does. I don't think that's a good deal, right?

PATTY: Right.

SCOTT: Now, the variable annuity, the pro of the variable annuity is that it gives you the potential for market-based returns, okay? But the con, of course, is that it gives you the potential for market what? Market losses. You see that? That's the difference, the pros and cons of each of these. The type of annuity I'm talking about, a private pension type annuity that we've been talking about, here's the difference. A private pension annuity will pay you guaranteed income for how long, Patty?

PATTY: For life.

SCOTT: For life. As long as one of you is alive, you get that check. Now, you cannot lose money in a private pension type annuity and it gives you the potential for market-based returns. But, it doesn't require you to annuitize, it doesn't have to cap your returns, and it'll never experience market losses. Do you see the difference here, guys?

PATTY: Yes.

SCOTT: Simple question for you. If your roles for reversed, and you are the standing over here and I was sitting over there, if you were in the position of fiduciary, could you recommend any of these contracts, any of these annuities the way I've described them to you with the pros and cons?

ROY: No.

SCOTT: But could you recommend something that did all of those three and didn't do those (inaudible)? Do you see the difference there?

ROY: Uh-huh.

SCOTT: That is what I'm talking about here. That's when I say that these private pension type annuities I'm talking about here fall in this two percent category, they're completely different. Is that a fair answer?

ROY & PATTY: Yes.

SCOTT: Is that satisfactory? Because, again, if you have a dissatisfaction . . some people have such a distaste in their mouth that I'll take it off the table if you guys don't want it.

PATTY: No, no; I like it.

ROY: Yeah.

SCOTT: But I think that's pretty positive, don't you?

ROY & PATTY: Yeah, uh-huh.

SCOTT: You're sure? That's okay?

ROY: Right.

PATTY: That one's okay.

SCOTT: Okay, very good. All right. Any other questions?

ROY: I guess the last question here, I was kind of going through your book here that you gave us and it says you charge $500 an hour.

SCOTT: Remember last time we talked I told you that in the book there's going to be a bunch of expenses, and the only one you need to worry about was the 1.25? Unfortunately, one of the things that happens is that the government makes me list out every possible expense I could ever charge for anything I could ever possibly do. That $500 an hour, I put that in there because occasionally some big pension fund or 401K will want to hire me to do a risk analysis on their investments and consult with them on it. I charge them 500 bucks an hour, but I'm not going to charge that. The only thing you're going to pay us is that 1.25 percent.

ROY: I think that pretty much answers all my questions.

SCOTT: All right, guys. Well, thank you. This is exciting stuff. Let's get you started here, shall we? What I'm going to do is I'm going to call Cathy over. Remember I told you I was going to assign you to the Mike and Cathy team? Well, Mike's actually out sick today, so I'm going to assign you to the Cathy and Mike team. So, since Mike's not here I'm going to make Cathy your primary point of contact. So, give me a minute here I'll just buzz her to come on in.

(DIALS PHONE)

Cathy: Yes, sir.

SCOTT: Hey, Cathy, could I trouble you to come in for a moment, please?

CATHY: I'll be right there.

SCOTT: Thank you. All right. So, Cathy's going to help you with your paperwork today. By the way, Cathy does the paper work because if you ever see me doing paperwork, just call 911, I've had a stroke, okay? You never want to see me doing paperwork. That's not what I do. Guys, this is Cathy. Cathy, this is Roy, this is Patty. All right. So, what I want to do together is while we're sitting here is I want to go through your portfolio and we want to outline exactly what to do with it, okay? So, let's take a look at the computer. Take a look at screen up here, all right? So, this is holdings that you had. If we have to change this, no big deal, we'll change some of the things up here. But the first thing is, see these red numbers or these red lines up here, we have the checking and savings accounts here?

ROY: Uh-huh.

SCOTT: Patty, remember you talked about you wanted to leave 60,0000 but I did it with 90,000?

PATTY: Right.

SCOTT: Okay? Well, I'm going to suggest at this point in time that we just leave that money in the bank for you guys, okay?

PATTY: Okay.

SCOTT: Now, at a later time, once you're comfortable with the investments and see how everything works, we can revisit that and move some of the money if you want. But for now, you said 25, you said 60. Let's just leave the 90 there and then we'll move some more later if that's okay with you. Sound reasonable?

PATTY: Yeah.

SCOTT: Okay, very good. All right. So, we take a look here. Now, Roy, you had these two Merrill Lynch accounts right here, okay?

ROY: Uh-huh.

SCOTT: All right. What I'm going to suggest that we do with these is, this first one I'm going to suggest we move that to a private pension, okay?

ROY: Okay.

SCOTT: And the private pension I'm going to recommend you on this one, Cathy, we're going to go with AE on that. Now, you guys don't know what AE means right now, but it'll make sense to you in just a moment, okay?

PATTY: Okay.

SCOTT: All right? Remember I talked about the big, strong, safe insurance company that would sponsor and back it? That AE, it stands for American Equity, but I'll get to that in a few minutes, okay?

ROY: Uh-huh.

SCOTT: All right. So, Cathy, I'm also going to recommend that we take this other Merrill Lynch account here and we move that to the private pension. But we only need to put a million dollars in the private pension. So, whatever gets in from this one, plus this one adds up to a million, I then want you to take the remainder of that money and move it to IB. IB stand for Interactive Brokers. Remember, we talked about the custodian that would hold your assets? Okay? That's your private wealth strategies are going to be at Interactive Brokers, okay?

PATTY: Okay.

SCOTT: And then your private pension money is going to be in American Equity. They'll be the custodian of those dollars. Make sense? All right? Then, on

Roy's Vanguard 401K here, Roy, as we found out, you can do an in-service rollover on that, all right? Cathy, you're going to do an in-service rollover. Now, you're going to have to call Vanguard, and you know the routine with Vanguard. Call them up and do the in-service rollover over the phone. We're going to move that money to Interactive Brokers as well. Now, Roy, what they're going to do at Vanguard, this is what they normally do, they'll take care of this over the phone. They'll mail a check to you. It's not taxable. The check is going to come payable to Interactive Brokers, which will with the new custodian, for benefit of Roy Brooks, okay?

ROY: Okay.

SCOTT: Okay? It will have your name on there. Do not cash that check. Cathy will go through this with you again. Do not cash it. Just bring the check in here then we'll enter it into our system and then we'll mail it to Interactive Brokers, okay?

ROY & PATTY: Okay.

SCOTT: And then Patty, you have this Merrill Lynch account right here. This is your Roth IRA.

PATTY: Uh-huh.

SCOTT: I'm going recommend that we move that to Interactive Brokers as well. Everything you see for IB here is going to be the private wealth strategies.

PATTY: Okay.

SCOTT: Everything you see PP, that's going to be American Equity. That's going to be private pension, okay guys? So, that's how we're going to do that. Now, what I'm going to do here is I'm going to send Cathy back to the office next door. She's going to finish preparing the paperwork, because after looking at everything we showed you guys, it was kind of a no-brainer that you were going to move forward on this. So, she's taken the liberty of preparing the paperwork to get this done for you, okay?

PATTY: Uh-huh.

SCOTT: While she's putting the finishing touches on that paperwork, I'm going to take a few minutes and I'm going to go through with you, in detail, every fee, cost and expense associated with doing business with us, all right? Because I don't want there ever to be any misunderstandings between us, okay?

PATTY: Okay.

SCOTT: So, I'm going send Cathy back to her office, she'll get that taken care of, and I'm going send you guys over there in a few minutes to do the paperwork. Sound good, guys?

CATHY: All right. See you in a few.

SCOTT: Thank you. All right, guys. What I want to do now is I want to take a few moments I want to do through with you every possible fee, cost, and expense that you could have, okay? What I want to do is I want to use the candies here as the props, okay? Now, you've eaten some of the props. That's okay. Oh, Roy there you go. So, there was more props out there. We'll just work with these; that's fine. All right. So, first thing I want to do is I want to take few minutes, I want to go through all the fees, costs, and expenses of the private pension annuity, okay? Now, the first thing I want to tell you is the company that sponsored; remember how we talked about we have a shared-risk pool over here, and we have a big, strong, safe company backing it? That big, strong, safe company that I've chosen to back it is a company called American Equity. Now, they're located just up the road from here. They're up in Des Moines, Iowa. They're not far at all, all right? American Equity is a very good company, all right? They have very solid ratings, they have a great asset-to-liability ratio, their assets are properly aligned with their liability, they have solid management team in place, and really one of the most important things to me is they have consistent, solid track record of delivering consistently good results to their clients, all right? And that's what I like in a company. I like consistency. I like good results, all right? So, American Equity is that sponsoring company. How does the private pension work and what are the fees, costs, and expenses? I'm going to go through that with in detail. Before I do that, can I erase what's on the board here, guys?

ROY & PATTY: Uh-huh.

SCOTT: All right, very good. All right. So, in the private pension, there are three possible fees and expenses that could affect you. Now, I said possible, because not all of them will affect you, okay, but I want to make sure that you know they're there. The first expense is what's called an asset fee. The asset fee is 0.9 percent, all right? That's an amount that's deducted from your account once a year, all right? That's basically, part of that is what I make, what they use to pay me to put this in an account. By the way, you guys know that I'm going to get paid, right? That doesn't surprise you? You know I've decided to make my living, right?

PATTY: Right.

SCOTT: So, you're not surprised I'm getting paid, right? You know that?

PATTY: Yes.

SCOTT: Okay, good. So, this is an asset fee. Now, that's the first fee you have. Now, what does the company, American Equity, what do they give you to invest in there? Well, let's pull this up here. Let's take a look at the private pension. Remember, I showed you the private pension here. Let me just highlight it. See that private pension right there? Big guarantee is they're going pay you that income guaranteed for the rest of your life, all right? So, how do we get there? Well, the first thing that happens, okay, the first thing that happens is this. Private pension companies, annuity companies, if you will, compete against each other for your business. And really, they kind of compete to me. They want to appeal to me so that I will, as a fiduciary, will place your business with them, all right? So, I want to do what I think is in your best interests. One of the first things that the company offers to any people that invest their money with them is they offer an eight percent sign-on bonus, day one. So, for instance, in your guys' case you're looking at putting a million dollars in there. So, you put a million dollars in there, your account is immediately worth what? $1,080,000. That's a pretty good bonus right away, isn't it?

PATTY: Uh-huh.

SCOTT: And then the next thing they offer this is now the guaranteed stuff, okay, guys? The next thing they offer is 6 percent annual compound interest. That's the guaranteed portion. American Equity uses the phrase "income account value" for the guaranteed side, okay? So, I'll call it guaranteed income account value. They're interchangeable terms for this discussion. So, your income account value at the end of one year pretty much guarantees you it's going to increase by how much?

ROY: Fourteen percent.

SCOTT: That's a pretty nice guaranteed first year deal, isn't it?

ROY: Uh-huh.

SCOTT: All right, and then they guarantee they will pay you six percent a year for the next six years, okay? Now, we have another choice. They offer 5.5 percent guaranteed increase to the income account value, all right, and they guarantee that for ten years, all right? So, we can get six percent for five years or 5.5 percent for ten years. In your guys' case, since you're probably going to be retiring in about six years, five years anyway, I recommend we take the six, okay? Because they give you the option, if you want to, to renew that for another five years if you want. So, you may as well take the six. I think it makes the most sense for you guys, okay? All right. That is how the guarantee works. That's the income account value. Remember I made the comment that this $58,000 income is guaranteed, but it could potentially be higher? How could it potentially be higher? Well, basically, the way these annuity companies work is that basically what they need to do is they need to earn a return higher than the six percent. That's how that make their profit. I'm okay with them making a profit, but I don't think they should get all the profit above six percent. I think so they should do a profit sharing with you, okay? So, this next part is like it's called profit sharing, sometimes simply referred to as account value, as opposed to the income value. The income account value is the guarantee, the account value is the profit sharing portion. Here's the way the profit sharing portion works. Before I show you that, I need to give you another fee. There's a second fee, and that second fee is called a spread, and the spread works like this. The spread 3.5 percent. What does that mean? Let me show you. For the sake of discussion, let's just assume that that line represents a zero percent return in the stock market. More specifically, it represents a zero percent return on the basket of stocks that your profit sharing is based upon, that your account value is based upon. In your guys' case, the basket of stocks we're going to look at is what's called the Dividend Aristocrats, okay?

And it works like this, okay? If that basket of stocks -- the Dividend Aristocrats, are the companies that have increased their dividend every year for the last 25 years, so good, solid; big, boring, solid companies, okay? So, it works like this. You have a 3.5 percent spread. Let's say your basket of stocks earn 10 and a half percent. The first 3.5 percent of the returns in any given year belongs to who? The insurance company. Anything above that belongs to you. So, in this scenario, if the basket of stocks if the index the basket of stocks is based on did 10 and a half percent on the year, what return would you get?

ROY: Ten.

SCOTT: Well, no; seven. Ten and a half minus three and a half, is seven. Do you see that?

ROY: You have math skills.

SCOTT: You have seven percent. But wait, you have to pay the .9 percent fee, so minus .9 equals 6.1. You see that right there, guys?

ROY: Uh-huh.

SCOTT: So, they're guaranteeing you six percent, right? The account earns 6.1, so that year potentially you could earn more than the guaranteed minimum account value which could potentially make that number, higher right?

PATTY: Uh-huh.

SCOTT: Not guaranteed, so the only time this 3.5 percent fee affects you is if you happen to do better than the guarantee. You see that right there? So, what's interesting here is that that fee is actually one of your best friends, because if it affects you, that means you did well that year, right? You got better than the guaranteed increase in the income account value. Does that make sense?

PATTY: Uh-huh.

SCOTT: This is a very strong way to do this, guys. This is a very powerful thing to do, all right? Because it gives you the peace of mind to know you have that as the minimum increase in your income account value, but it could, potentially it could, potentially be more, okay? You know something else that three and a half percent does? It does a few other things. This is one of the ways that the insurance company pays me, okay? Because, remember, I don't care if you invest the money in private wealth strategies or in these types of investments. I make roughly the same amount of money on average over time anyway, okay? It doesn't matter to me. But they pay me a portion of that. They pay me a portion of that. That's how I get paid. But the insurance company does something else that's really strong here, guys. Let's say we have a repeat of 2008. Remember the housing bubble?

PATTY: Uh-huh.

SCOTT: Let's say market went down 50 percent. If the market goes down 50 percent, how much money did you lose in this scenario? The answer is . . ?

PATTY: Nothing.

SCOTT: Zero. Remember, you're not affected by the stock market. If the market goes down, that's totally on the insurance company. Any gains above that, they get first three and a half percent, you get anything above that. But the bottom line is you're going to get the increase in the income account value at six percent. Does that make sense, guys?

ROY: Uh-huh.

SCOTT: Now, there's another expense that we need to take a look at, and this expense should actually be kind I obvious to you, all right? It will be when I point it out to you, all right? Let's look over here. You see this 14 percent increase in your income account value the first year? Thinking about this for a moment, do you know any place right now that you can go out and get a guaranteed 14 percent on your money?

PATTY: No.

SCOTT: You don't, do you? So, let's go back over here to the pool, all right? You have a pool of money right here, and when people get into that pool the first year, the insurance company is guaranteeing you'll get a 14 percent increase in your income account value, okay? Potentially, it could be more with the profit sharing, but forget the profit sharing. Forget the profit sharing even exists. Just focus only on the guarantee, okay? They can't really give you 14 percent, can they? So, how can they do it? Because remember, the state regulates this, why will the state let them pay a guaranteed 14 percent? The answer is simple. The state says you can pay that, but you have to protect it. They can only give that to people who get into the pool and stay in the pool, okay? See, because that 14 percent return creates what's called an arbitrage. That's a big word, but let me tell you what it means. You got these companies out there called hedge funds, okay, that are looking for ways to make great returns. These big, evil hedge funds are over here and they look and they say "Holy cow, I can get 14 percent guaranteed!" They'll jump in that pool, get the 14 percent, and jump out, and then they'll want to jump back in the pool and get 14, and then jump out. If people do that, does the pool work?

ROY & PATTY: No.

SCOTT: It doesn't work. Think about this pool this way. This pool, think of it like a real swimming pool. When you were a kid, and you went to the swimming pool, what did you do? You did cannonballs, right? You dunked your girlfriends and your friends. You splashed them in the face. You played Marco Polo. You made a mess of things, right? When you go to the swimming pool today, what do you want to do?

PATTY: Just relax.

SCOTT: You want and sit and float and relax, don't you? That's what this pool is, all right? This pool is a place to sit float and float and relax. It's for people that get in the pool and stay in the pool. How do we keep the hedge funds, or said another way, how do we keep the kids out of this pool, all right? So, the state says you can do this, all right? You can increase their income account value by 14 percent the first year, but we got to keep hedge funds out. So, what they say is this. There has to be a withdrawal charge if you pull your money out early, and that withdrawal charge is 12 and a half percent. So, basically what they're saying to you is very clear, here. We can give this to you, but if you get out . . ?

ROY: Twelve and a half percent's coming off the top.

SCOTT: You get it? And people look at that and go, "Wow, Scott; that's a negative!" and it's not. It's actually one of the most important positives things in here, because that keeps the hedge funds out. That means everybody who goes into this pool is going in with their eyes wide open, clearly knowing I'm getting in this pool, and I plan on doing what?

ROY & PATTY: Staying.

SCOTT: Staying. Why do people stay in this pool? Because everybody in there wants what?

ROY: Guarantee.

SCOTT: They want their income. That's the only way they can give you guaranteed income, is if you get in the pool and stay in the pool. Now, that 12 and a half percent decreases a little bit each year or so, okay, and I don't remember what the decrease is. I don't bother memorizing these things; there's so many of them. Cathy will show you when she does the paperwork, but I think it's something like 12 and a half, 12, 12, 11, 10, nine, eight, seven, six; it keeps going down, and eventually, after a maximum of ten years, it's zero, okay? So, there's no withdrawal charge at all. If you stay in there that long, they're cool. And by the way, if people stay in there that long, they're going to stay anyway, because they want this. I mean, well over 90 percent of the people who put their money in this pool and get their income, you know what they do? They die with their money in that pool, because they need the income. That's what it's for, all right? So, this withdrawal charge isn't an enemy, it's your friend because it keeps the other people out and makes sure people get in the pool and stay in the pool. And I got to tell you something, people that get in the pool, you know what they look like? Just like the two of you. You don't see 25-year-olds. As a matter of fact, if you were to refer you children to come see me, I probably wouldn't even have this conversation with them, because it's not an appropriate for them, because they're younger. But, for you guys, at this stage of your life, this is a great place to put your money. Do you see that? This is how you can have it. So, let's take a minute and let's review this so we're very, very clear. Oh, I'm sorry; I forgot to mention something. This withdrawal charge, notice they're paying you an income, but it's before the ten years are up. So, see right here, the income is being paid to you, but it's before ten years. If you take an income before ten years, are they going to charge you 12 and a half percent? The answer is no. See, as long as you're in the pool, this pool is designed to pay you an income, right?

PATTY: Uh-huh.

SCOTT: If they start paying you a monthly income, that's exactly what it's designed to do. There is no withdrawal penalty for that income. There's no withdrawal charge for it. Now, they also give you some liquidity, too, meaning you can always take out up to ten percent of your money without a withdrawal charge. Because they're not owners, they know occasionally you might need money, they make a ten percent withdrawal available, okay? But there's something else we got to be concerned about here. Because people your age not only need income, but there's something else that happens to people in your age group. It's unfortunate, but what do people in your age group have a tendency to start doing? What are your friends doing? They start dying, don't they? They die. If you put money into this pool and you got this withdrawal charge, and you die and your kids to want to inherit this money, and they're like what do we do? There's a 12 and a half percent withdrawal charge on it. No, there's not. If you pass away, they waive all the withdrawal charges and they make it available to your kids. They don't penalize you for for dying, because people who get in this pool die. So, if you die, no problem, it passes on to you kids. You want the income? No problem, there's no penalty for that at all. Does that make sense, guys?

ROY: Uh-huh.

SCOTT: Remember in the class where you learned that money behaves differently in the distribution phase than it does the accumulation phase?

ROY: Uh-huh.

SCOTT: Well, those rules don't just apply to people, they apply to the big insurance companies and these shared-risk pools, okay? Money behaves differently there. Remember I told you you get the six percent minimum increase in the income account value? All right, that's guaranteed. Then you have potential for the profit sharing over here. You've got all of these private pensions. Now, here's what happens: these are all in the accumulation mode; you're not taking any money out. As soon as you start taking money out, let's say we turn that private pension on right there. These are still in accumulation, that's now in distribution. This one changes. What happens is this: That one account right here, once we start distributing money from it, no longer gets the six percent increase in the income account value. It only gets the profit sharing on the account value side. That's all it gets. Now, the other ones will still get either the profit sharing on the account value or it will get the six percent increase in the income account value. They get both. But as soon as you turn one on, it only gets the increase in the account value on the profit sharing. Now, the rest of these are in accumulation mode still. Once we turn another of those on, now these two only get the profit sharing, but the other ones continue to get . . does that make sense, guys? All right. So, let's take a minute now and review. So, Roy, I'm going to start with you. Asset fee. Describe the asset fee is, how much it is, and what you think it's for, what your understanding of it is.

ROY: Uh, they charge me . . well, yeah, I forgot.

SCOTT: That's okay. How much is the fee?

ROY: Nine percent.

SCOTT: No, .9. 0.9 percent. That's the fee that they charge you in the account, all right? Part of that money is used it pay who?

ROY: You.

SCOTT: Right. That's part of the money, how they compensate me, all right? Now, let's look over here. See this six percent right here? If there's a .9 percent fee, does that mean this is 5.1? Or is this six percent what you get?

ROY & PATTY: Six percent is what we get.

SCOTT: Right. That's what you get. That's the increase to your income account value. Make sense? So, that fee won't affect that number.

ROY: It only affects if there's an increase above . .

SCOTT: No, it just applies to the account value, which is the profit sharing side, as I call it, the account value. All right, Patty. I saved the hard one for you.

PATTY: Well, thank you.

SCOTT: This spread, tell me what it is and how it works and why it's a good thing.

PATTY: It's a good thing because it will increase the six percent depending on how much . . oh, I forget . . how much the ten . . profit is.

SCOTT: Right.

PATTY: And so you would deduct . .

ROY: The maximum is 3.5 percent.

SCOTT: So, if the basket of stocks did ten and a half percent, what will you get that year?

PATTY: Oh, well, minus the 3.5 would be seven.

SCOTT: Seven.

PATTY: Minus the . .

SCOTT: .9.

PATTY: .9, then that gets you to 6.1, which would give you 6.1.

SCOTT: So, you could earn more than that six percent that year, potentially. Does that make sense?

PATTY: Uh-huh.

SCOTT: All right. Let's say the basket of stocks in any given year, let's say it were to earn two and a half% in the year. How much return would you get that year on the profit sharing side?

PATTY: Oh, it's two and a half percent?

SCOTT: The market gave you two and a half, but there's a three and a half percent spread. What would you get that year?

PATTY: Eight?

SCOTT: Nope, nope. Nothing.

PATTY: Oh, oh, yeah. Okay.

SCOTT: You get nothing.

PATTY: Right.

SCOTT: That's okay, because your income account value increased by six percent. You see that over there? So, what I say about this profit sharing is forget about it. Assume it's never going to happen. Everything we did was based upon the guarantee of the increase in the income account value. Does that make sense, guys? That's our focus, okay? If the market goes down, Patty, how much do you lose?

PATTY: Nothing.

SCOTT: Nothing. Right, so you don't subtract that three and a half percent from it. Make sense? All right. Now, let's say the market . . let's make this simple. The worst that you can do is a zero percent return on this profit sharing. This side is the income account value, always increases by six, but the account value, the profit sharing side of your account value could do zero, right?

PATTY: Uh-huh.

SCOTT: Loses money or does nothing. It could be a zero percent return for you that year. But, there's one potential negative. They're always going to charge you the .9. So, worst-case scenario, this side could go down by .9. You see that there? I mean, who cares? You're getting your income, right?

PATTY: Uh-huh.

SCOTT: All right. So, make sense?

PATTY: Yes.

SCOTT: So, Roy, it's your turn again.

ROY: Okay.

SCOTT: Withdrawal charges. Tell me what the withdrawal charge is, how it works, why it's a good thing, why it's potentially a bad thing. Tell me your understanding of the withdrawal charge.

ROY: Okay. You have you pile of money, a pool of money over here, and if you withdraw it, put it in then withdraw it right away, you're going to get charged 12.5 percent.

SCOTT: Right.

ROY: If you keep it in there for at least ten years, there's no charge to withdraw. If you die, your children or your wife or whoever, your beneficiary, will receive the money.

SCOTT: Without . . ?

ROY: Without penalty.

SCOTT: The penalty is waived if you pass away.

PATTY: I do have a question.

SCOTT: Sure.

PATTY: I mean, say we die and the money is there. Can they still take out . . is that a monthly . . ?

SCOTT: This is an annual amount here. Can they still take it out, and the answer is no.

PATTY: They have take it all.

SCOTT: They'll have to take the money. Now, what we can do, depending on what's going on with the account, remember we talked about setting up stretch IRAs with your account where they can take your IRA and make it their IRA's. Now, they can cash it out if they want, or some of them can take stretch IRA's, it just depends. You've given them the option to pick how they want to take it, but they can't get income. The income is only for the two of you. Make sense? So, does this 12 and a half percent, how much do they deduct from your income check out of this 12 and a half percent?

ROY: Nothing.

SCOTT: Nothing. It doesn't pertain to your income at all. How much can you withdraw per year without paying that 12 and a half percent penalty?

ROY: 10,000.

SCOTT: No, say it . . no.

PATTY: 10,000?

SCOTT: No.

ROY: Ten percent.

SCOTT: Ten percent. You can withdraw up to ten percent, guys, all right? And what's the nice thing about that?

PATTY: It keeps the hedge funds out.

SCOTT: Keeps the kids out of the pool, doesn't it? Keeps the kids out of the pool. All right, guys. Make sense?

ROY: So, if we withdraw ten percent out this year, we won't get 58.25?

SCOTT: No, because there's less money in the pool.

PATTY: So, it goes down.

SCOTT: It would go down. So, the goal is not it to withdraw the money. Because, remember, you got a million five. We're putting in a million here. There's 500,000 dollars elsewhere, plus if we had to we could get to another 100,000 over here if we needed to. Just a simple question for you: So far in your life, how many times have you had such an emergency that you needed more than $500,000? Maybe never?

PATTY: Never, yeah.

SCOTT: Never. So, you're okay. You have plenty of liquidity there, okay, guys? Any questions about that?

PATTY: No.

SCOTT: Make sense? All right. So, this is the private pension. What I want to do now is take a moment and talk about the private wealth strategies, how they work, okay? Now, on the private wealth strategies, by the way, the good news on the private wealth strategies is they're much easier than the private pension, okay? So, with the private wealth strategies, you have FTA. That's my company. This is us. This is how we get paid. Our fee, 1.25 percent. Make sense?

ROY & PATTY: Uh-huh.

SCOTT: All right. How do the provide wealth strategies get paid, all right? Well, if I may, before I show you that, I want to brag a little bit, okay? We work very hard to get good deals for our clients, all right? We work very hard to do what's right by our clients. Have you guys ever seen how private wealth strategies normally charge to their investors? Have you ever seen those? That's okay, most people haven't. I'm going to show you how they normally charge, and then I'm going to show you what you're going to pay. I want to brag so you can see I think this is a pretty good deal. Private wealth strategies work; there's various ways they work, but I'll show you an example of how they work. Sometimes they'll charge a three percent fee to manage your money, plus they take 20% of all the profits. So, it works like this.

SCOTT: Twenty-four. So, in this scenario, how much would you as the investor get?

ROY: Twenty-four.

SCOTT: Twenty-four. That's the way they normally do it. That's not what you're going to pay, all right? Here's the way we work it. See that 20 percent right here? Gone. You're not going to pay that at all. See this three percent right here? Gone. The private wealth strategies charge 0.75% due to our purchasing power ability as a fiduciary group. So, the total fee you're going to pay is two percent. There's one other expense. The other expense is trading costs. Remembered I talked about there was an expense to buy and sell things, okay? Like in your Fidelity account, Fidelity charges $7.95 per trade, and they just recently lowered it down to $4.95, which I'm sure you like, right? All right. You know what I say to $4.95? No. That's way too expensive. You see, remember I talked about there's this group called Interactive Brokers, the custodian we're going to use for you, where the professionals trade? Well, professionals know what's going on, all right? We know what it really costs to do things. It's like movie The Wizard of Oz; they say "Pay no attention to the man behind the curtain"? Well, we pay attention to the man behind the curtain. We know him my first name. We know what the expenses are so we want to keep the expenses down. Fidelity and Schwab brag about having $4.95 trades. We say that's too high. Guess what you're trading costs will be at Interactive Brokers? One dollar. One dollar! That's 80 percent less, roughly, than those other guys charge. And actually, actually, we're getting set up with Interactive Brokers to do what's called block trading, so some time in first quarter of next year, we can do block trading. We don't know for sure what the final number is going to be, but we estimate that some time next year the cost per trade is going to be as low as ten cents a share . . or ten cents a trade. I mean, it makes trading cost almost completely irrelevant. There you go. That's the fees, costs, and expenses. Sound reasonable?

ROY & PATTY: Uh-huh.

SCOTT: And to be clear, remember I told you, everything I showed you included all fees, cost and expenses, right? So, look right here. See this return of nine percent, all right? If there's a two percent fee and nine percent was the net return to you, what return did that investment really get?

ROY: Ten percent. No . .

SCOTT: It got 11. They got 11 percent, and after the fee of two percent, you got nine. So, like right here where they lost 2.75 percent. What return did they really get that year? Negative .74, right, because two percent was the fee. Does that make sense, guys?

PATTY: Yes.

SCOTT: That's the way it works. Everything you see, net of all fees, cost, and expenses. When I showed you these lines, the blue line versus the red line, that blue line? Net of any fees, costs, and expenses. You see that, guys? Any questions about this? Asset fee, .9 percent. Spread, 3.5 percent, only pertains to the profit sharing account value. Withdrawal charge, only pertains to the profit sharing account value right here. That will only affect you if you pull your money out. If you take out more than ten percent, or you take out, more than your income out. Does it affect you if you die?

ROY: No.

SCOTT: No, all right? This .9 percent and this 3.5 percent, that's how they make their money. They pay me a portion of that. That's how I make my money. My company is going to make about 1.25 percent for getting you in the private wealth strategies. Private wealth strategies are .75, total fee of two percent. There's a one dollar trading cost for every trade we do. We're trying to get that cost down. We think we can get it down to as much as ten cents a trade to get it really low. Any other questions?

ROY: Scott, I do like the idea of getting six percent income on our account value of the annuity and that, but I also like the higher return on our investment. Is there something we can do to get higher returns?

SCOTT: That's actually a fair question, okay? Remember, we talked about the private wealth strategies like you see here, all right? So, we can do the private wealth strategies, but as I've often found with retirement financial plans, there's some compromise. So, let me run something by you two guys here and see what you think, okay? So, right now what we have have is basically we have about the 90,000 in the bank account, okay? We talked about doing less than that, but we'll get to that 90 in a moment. We've got about a million or so over here in the private pension annuity, okay? That's just earning the 6 percent on the income account value. And, we also have this other roughly 300,000 and change, okay, that's going to be invested in the private wealth strategies, okay? The reason I came up with this allocation like I did, is that remember investments are just tools, and I'm trying to arrange them. I'm trying to specifically accomplish some very specific goals here, okay? You've got some goals you wanted to accomplish, and you need the guaranteed income. I don't think you object to the guaranteed income. Is that a fair statement?

ROY & PATTY: Yeah.

SCOTT: Patty, I know you really like that a lot, don't you?

PATTY: Yes, I do.

SCOTT: You do? Okay. So, what about this as a compromise? Patty, I want to give you the guaranteed income you want, okay? All right, if we can get you the guaranteed income you want to accomplish all your goals, remember we talked about the low-risk and moderate-risk investments? Roy, I get the impression you kind of like the moderate-risk a little more than the low-risk. How about this, Patty? If I can get you the guaranteed income that you want, all right, to accomplish all your goals, guaranteed for how long?

PATTY: Life.

SCOTT: Rest of your lives, right? If I can get you that, would you be okay if we compromise with Roy and maybe let him have a little bit more money invested in some of the moderate-risk strategies so he can get a higher return? Now, these will have larger losses, but will you be okay with those losses as long as you have the income you want?

PATTY: Yes.

SCOTT: So you could give him the ability to have some higher returns?

PATTY: Uh-huh.

SCOTT: Roy, question for you. If we gave you the ability to have higher returns and focus more on some of the these moderate-risk investments, which I know you like more than these lower-risk, if we did that, are you willing to compromise and let Patty make sure she has the peace of mind she wants to know that not only the income is there, but the ability to pay for that long-term care to potentially self-insure, all right? Is that a fair compromise you're willing . . so . .

A. I think so, yeah.

SCOTT: So, we can do the private pension to give you the peace of mind you want, Patty, we can maybe juice up a little bit on the other side with the moderate-risk investments. Now, Patty we've got 90,000 over her in cash in the bank. You said you were okay with 60, okay? So, not now, but in our next meeting, all right, why don't we revisit maybe using some of that money as cash in the bank, that we could put maybe some of that in the low-risk strategies, all right? Does that feel like a reasonable compromise for you guys?

ROY: Uh-huh.

SCOTT: Is that satisfactory to you, patty?

PATTY: You're talking from a moderate to a lower risk?

SCOTT: No, we're talking about going from lower to more moderate risk on the private wealth strategies. So, he's going to have a little bit more risk, but it's risk I think that's within you range of comfort, okay? But, we're going to have more here on the moderate side so Roy can get the returns he wants, but you can have the guaranteed income and whatever cash you want to have in the bank. If you have the cash in the bank and guaranteed income, are you okay with Roy being a little bit more reasonably aggressive over here?

PATTY: Sure, that would be fine.

SCOTT: Roy, you're cool with her having the guarantees and that?

ROY: Uh-huh.

SCOTT: Does that seem reasonable, guys?

PATTY: Yeah.

SCOTT: That's what we'll do then. Get that taken care of.

PATTY: Sounds good.

SCOTT: Before I send you next door to see Cathy to take care of the paperwork, I want to take a moment, I want to look you dead in the eye, Patty, and I want to say thank you. Thank you so much for you giving us this opportunity to serve you. We're really honored to have this. We really appreciate it. I want you to know that if there's ever any problem or concern or anything you think that is not right, never let it fester. Call us immediately. Call us immediately so we can discuss it. Because chances are it's just a misunderstanding, and we'll fix it. We work hard not to have misunderstandings, but we're human beings.

PATTY: Sure.

SCOTT: Call us and we'll fix it. We'll always take good care of you. Roy, thank you very much for giving us this opportunity to serve you. We genuinely appreciate it. We're honored to have this opportunity. Don't ever hesitate call us. If you wake up tonight at three o'clock in the morning and you go "Oh my gosh, what did we do?" don't worry, just call us. Now, we're not going to answer at three o'clock in the morning, but we'll call you back as soon as we get in, okay? Guys, any other questions for me?

PATTY: Thank you very much.

SCOTT: It's our pleasure, thank you. I'll walk you next door to Cathy's office and we'll take care of the paperwork.

PATTY: Thank you.