Castling
Financial Planning, Ltd.

Helping You Secure Your Future™

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Spring 2015 Newsletter:

On the Care and Feeding of a Financial Guru

It was an old radio and I don't recall exactly what made me turn it on that cold January evening back in 2001. I found myself dialing up an out of state AM radio station, trying to see whether it was still a "clear channel" that could be heard from halfway across the country. Bingo. The audio came in loud and clear. There was a talk show and the host had a guest on who was apparently the local financial "guru". Since I had become interested in all things related to personal finance almost twenty years earlier, I decided to give this a closer listen.

Mr. Guru (let's leave it at that, because this story, while completely true, is not meant to embarrass anyone) was telling a caller who asked about prepaying her mortgage that it just was not worthwhile. He was expecting 12% annual returns from diversified stock mutual funds. So compared to "other investments", mortgage prepayment fell far short. And after having paid off your mortgage, then what?

Wow. Did that ever catch my attention. For almost the previous ten years, I had slowly formulated the opinion, later substantiated through fact, analysis and evidence, that a major problem in personal finance was the lack of distinction being made between savings and investing. Furthermore, <u>prepaying one's mortgage is a form of savings and is not an investment</u>. Comparing it to an investment is simply incorrect. Our favorite comeback line: "A Porsche 911 is a fine car, but compared to *other* station wagons, it certainly doesn't carry very much".

I simply could not let this go without challenging Mr. Guru. I do not recall every calling a talk show on a radio station either before that time, or since. I nervously jotted the station's number and dialed it. I got through and the call screener asked me where I was calling from. "Chicago" must have been the magic word, since it got me on the program without much of a wait.

So I proceeded to explain why I could not agree with Mr. Guru's previous response to a caller, because he was not making a distinction between savings and investing. I recall his response as not being some pearl of wisdom or deep philosophical principle, but a rather flippant reply "What's the difference?", delivered in a seemingly sarcastic tone. I am not sure if it was intentional or not, so let's just attribute it to my own nervous interpretation. Keep in mind, he is Mr. Guru and I am Mr. Nobody.

Well, they wanted me to explain, so I proceeded to explain. While we had not yet entered bear market territory of that market cycle, stock prices were certainly off their March, 2000 highs and Internet stocks had mostly crashed and burned by that point. I stressed the importance of being able to do both: invest and save; that achieving a rate of return on savings equivalent to your mortgage interest rate could easily beat other savings products at the time. In addition, having your mortgage paid off eventually, would free up your budget, in order to invest in the future.

Well, somewhere, the conversation appeared to have made its way down a dark alley. I recall the host not being very happy with me and stating that I was challenging Mr. Guru. For his part, Mr. Guru seemed to clam up faster than an oyster holding a million dollar pearl. The conversation then seemed to get personal. Our lack of having children was the flaw in my logic, according to the host, notwithstanding that my wife and I have helped out her sister quite a good deal and their four children.

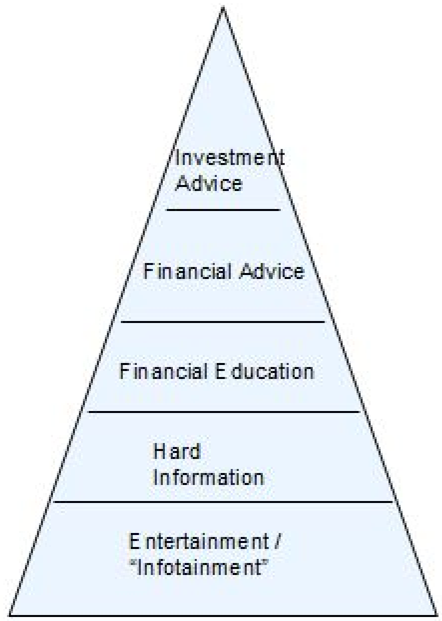
In reality, the balance between investing and saving can be found regardless of family size or income level. It was a red herring of a response, if you ask me. (OK, no more sea life metaphors.)

In conclusion, that evening, I learned first hand about the care and feeding of a financial guru. I had failed to feed the ego. That moment was as instrumental as any other, in convincing me that my next career would be in financial planning, if for no other reason, then to be the exact opposite of Mr. Guru.

Have you ever watched or tuned in to a personal finance expert, or what we are calling a financial guru? They range from Suze Orman on TV, to Bob Brinker and Dave Ramsey on the radio on many metro area markets (no, neither was Mr. Guru, in case you are wondering). There are also local and regional gurus.

Some however, are really just self-promoters touting their businesses, while their entire programs are simply paid advertisements. We would suggest extreme caution when it comes to taking the advice of someone who is not only not in the business of being a fiduciary, but whose entire radio or TV presence is an infomercial, meant to bring in business, not to primarily inform. Yes, ***Castling Financial Planning, Ltd.*** is also in business. But the purpose of our communications is to inform our audience and demonstrate our process of analysis. The general public can then form their own opinion.

But in researching the industry, we seem to find one important question going largely unanswered. What does a financial guru really provide us, versus what do we in the public think they are providing? We have found it useful to envision a pyramid of advice and information, taking the following shape:



If we dismiss those gurus who produce purely infomercials, the most common output from the rest of the programs seems to be some form of entertainment, mixed in with useful information. The next level up could be called "hard information sources". The problem is that hard information can be boring. Boring means low ratings and that spells the end of most personal finance shows on TV and radio.

One of the best combinations of consumer oriented program that also included personal finance segments, is ***The Willis Report*** on the Fox Business Network. We think it has been one of the best, if not the best, programs of its kind. The host, Gerry Willis, has featured various personal finance experts, as opposed to trying to play one herself (although she is quite knowledgeable in many areas). We were saddened to see reports of her show getting canceled, although this was not surprising[1].

As we move up the pyramid, we see fewer programs advancing from simply delivering information to actually making a presentation that we would consider to be financial education. One that clearly makes the grade is ***Wealth Track*** on PBS[2]. Since debuting in 2007, Consuelo Mack has interviewed many mutual fund managers, institutional investors and others involved in the investment business, along with discussions on other personal finance related topics. The quality of the information is very high and this program fulfills PBS's mission to provide education. We definitely recommend it and many professionals are among the viewers. About the only potential issue we can find is that the program may be considered too advanced for some beginning investors.

Another program with potential is the revival of ***Wall Street Week***. Originally hosted by Louis Rukeyser on PBS, from the 1970's until 2005, this new edition airs on selected broadcast TV stations in major markets and is being hosted by Anthony Scaramucci, of Skybridge Capital[3].

The next higher level on the pyramid moves us from financial education to actual financial advice. This is where we must add the following caveat. Real advice, of any sort, must get personal. It needs to be based upon an analysis of the facts and circumstances of the individual situation and then applies specifically (sometimes exclusively) to that case.

Let's compare this to the thirty second or three minute question and answer on major programs such as Suze Orman[4] or Dave Ramsey[5]. We would like to make clear that we have a lot of respect for both of them and they have each helped a large number of people. But they also tend to repeat so many of the same answers and suggestions, that it simply becomes a mantra. So any caller who may want to differentiate himself or herself, may soon be herded into the same pen with the other sheep.

“You are Denied!” or “Cut-up those credit cards!” may be the pearl of wisdom you receive if you are lucky enough to get through. Of course, there may be more of an explanation, but it is usually of the sound bite variety. 30 second or 3 minute question. 30 second or 3 minute answer. Nice and tidy. Assuming you are among the other 99.99% of folks who are watching or listening but not actually featured on the program, you may be left wondering whether the question being raised is similar enough to yours, such that the answer could be extrapolated to fit your situation. This is what we mean by programs being unable to offer true advice. The amount of time required to assemble the facts, analyze them, list alternative solutions and then recommend the best alternative for the given case, is simply not practical. It does not fit into the “block” program structure of a show on standard radio or TV news media.

Wouldn't it be absolutely refreshing, if the financial guru who chants the same mantra each week, instead would say something different, such as the following:

“You know how I am always telling you to avoid taking a loan from your 401(k)? Well, today I'm going to show you a fully detailed case study of when it would absolutely be a good idea. Will it precisely apply to you? Unlikely. But you will be able to see what's different in this situation and therefore, why I am recommending it.”

In fact, Suze Orman has so routinely criticized this idea, that others in the financial advice industry have called her out on it[6]. We take on this very idea in our companion article, in this issue of our newsletter. We can show you how true analysis is the answer.

To finish describing our pyramid, we need to mention investment advice, sitting at the very top. The reason we put it there is because of the legal definition associated with it and the need to uphold a fiduciary standard when dispensing investment advice. This puts it in a different league from mere financial advice. Yes, it too needs to be personalized and custom tailored. But it also needs to follow an approach that puts the interests of the client first. This is not something which can be delivered using the mass media.

We have never maintained the view that our newsletters constitute investment or financial advice, on their own. We do firmly believe, however, that our writings are part of the financial education which, otherwise, is so sorely lacking in our educational systems (when coupled with the proper personal finance primers).

We are definitely aware of the care and feeding (of the ego) of the financial guru. We have contrasted this with a framework describing what the guru could offer us, versus what their programs lack. But theirs is also the cult of personality. We don't presume to be in their league in this arena, but we do not care to be. We encourage you to use many informational sources, not just your local guru. Cross check your facts. If you are a committed DIY'er, then really learn personal finance first. Then commit to spending the time it takes to do the analysis. If you lack the knowledge or commitment to go it alone, seek out professional advice. Just make sure it's not conflicted.

Creating Your Own Definition of "Retirement"

What if, instead of depending upon our preconceived notions and media induced influences, we instead only used our powers of observation, data collection, analysis and synthesis, to scientifically reach the following conclusion as to how the word "retirement" should be defined?

The portion of one's life characterized by declining productivity and increasing infirmity, eventually resulting in death.

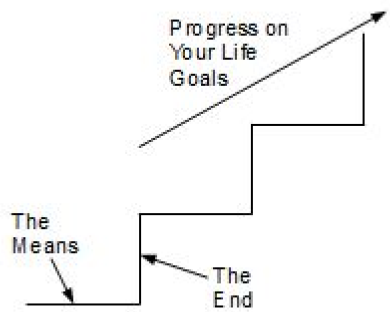
Wow. Seems worse than Debbie Downer wondering where she put her sleeping pills. But for much of human history, this seemed to be the typical definition of retirement, assuming one existed at all. Why? Human survival depended upon one's ability to provide for personal, as well as family needs. Each mouth to feed was a burden, to be sure, but also was a kind of human investment in the future. Families were larger, in the hope that one or more family members would not only survive and build a life in the same town as their parents, but that these children would also provide for their parents during old age.

Work has been seen as a necessity. In the past, it continued into old age, assuming the individual lived that long. It was no embarrassment for a person to work until they no longer could, gradually diminishing in their capabilities, while simultaneously becoming more frail. First, their children were their insurance policy. Later, Social Security filled the need, especially if private savings and investment could not. So our first definition is brutally honest in its assessment, but is quite old and has been changing over time.

Resorting to Wiktionary, while several definitions are shown, the applicable one is simple but rather unsatisfying. Retirement is defined as: "The portion of one's life after retiring from one's career[7]". While we can nitpick about using the term in the definition of that term, the real issue we have with this definition is the implied primacy of a person's career. What if we choose to call it merely Career 1.0? Or, just the job or line of work I used to support myself with, while I was preparing for Career 2.0?

There are means and there are ends in life. For example, we may need a college education as the means to get to the end we desire, namely an entry level job with a good salary. <u>But an end may very well be yet another means of achieving another end that we desire</u> and so on. In fact, we think this is one of the primary methods of success in life. The disconnect between means and ends in our lives could be one of the biggest sources of our trouble. If instead, we could <u>harness each "end" (accomplishment, product, output, earning capacity, etc.) as ready input for the next means, we may be able to more easily</u>

achieve the next end that we desire. Imagine the shape of stairs. Means and ends working together. Moving us up.



Our ***Castling*** principle reminds us of simultaneously using two fundamentally different things to achieve something we otherwise could not. This is meant to be a pragmatic approach that eventually sees us having at least some chance of reaching the idealistic goals we may have started adulthood with.

Is this what we are taught in the media and by the myriad of self help books? Not much, if at all. Instead, we are reminded to "do what we love and the money will follow". Or to just "think positively and let the good energy bring everything we want to our fingertips". We have not really seen this work. Have you?

What we have seen first hand, is some remarkably talented people toil at their "day jobs", while displaying their inherent abilities in the arts and music, as merely "side jobs" or amateur displays. There is nothing wrong with that, but it probably is not the fulfillment of their life's highest calling.

For others, it could be that fulfilling an entrepreneurial wish is their deep desire. But life just got in their way. Perhaps until now. So it was encouraging to see the number of people participating in a"Money Smart for Small Business" class, offered at a local high school and run by a community bank executive. The class and printed educational materials were provided free of charge. The course content was jointly developed by the FDIC and the SBA (Small Business Administration). The instruction was well balanced and free of partisan spin. This was no sales presentation or free lunch seminar. A significant amount of open discussion occurred among the participants[8].

One of our observations from the Money Smart class was that the participants were more middle aged, than younger. Perhaps only one or two participants were just starting out in their careers. Most were seasoned veterans either looking to launch a new business as part of beginning their next career move, or to actually "retire" into a new business, even if it was only part-time.

Business success and income may still be important, but life's goals may now be very different. This may be more about achieving a certain meaning in life, which can no longer be dictated in a top down corporate fashion.

So what does all of this have to do with means and ends? We see a certain similarity between the artistic/creative folks and the budding entrepreneurs. Both are searching for some additional or new meaning in their lives. Both may like to reshape their careers now or in the near future. Both may desire to redefine their retirement or what it would mean to retire. Both groups may feel trapped in a less than fulfilling present that saps their energy and drains their emotions.

If you share some of these attributes with either of the above groups, but your time line to retirement seems stuck and, ironically, leads you back to our starting definition, may we suggest a reality check is in order?

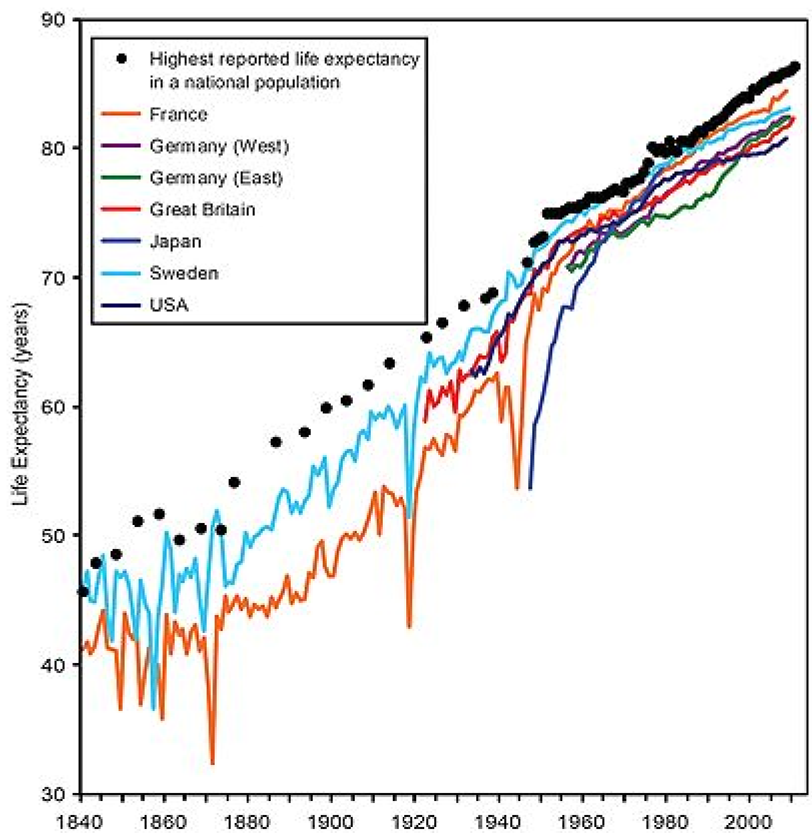
Unless the present is causing you real physical or emotional harm, <u>it may be very worthwhile to just grin and bear it, if the present can be truly a means of achieving your desired ends</u>. If not, then there is a disconnect and the staircase is broken. The college student working a minimum wage job may feel at least some contentment, if those wages are paying for his MBA, even if at a very mediocre school. It won't last for that long and there is light at the end of the tunnel, he reminds himself. That same person finally gets the good job that leads to the career that leads to the next... You get the picture.

Imagine if the boring and predictable first job is really used to do valuable things such as getting a foot in the door of an industry you desire, of having an opportunity to get an advanced degree paid for by one's employer, or just the ability of socking away as much as possible in a 401(k)? In other words, how about being practical and pragmatic at the outset?

For example, did a person get their art history degree because they really loved art, or because they loved to suffer like Van Gogh, while floundering from one low paying job to the next? This is not meant to be an overly harsh assessment. In our view, too many people pursue their "dreams" without a realistic clue of how to get from point A to point B. Imagine if that same person pursued a practical degree in something like accounting, if they knew a job would be a cinch? This still allowed them to take some courses (a minor perhaps?) in art history. After an entry level corporate accounting job, this person searches for a next job as a trust accountant and begins to deal with trusts and estates that hold art and collectibles. She advances her education in both areas. Ultimately, her knowledge of both leads to positions of increasing responsibility and with more exposure...to fine art. Yes, this story is a work of fiction, but this reality happens on a daily basis.

Strictly focusing on your dream college, dream major and dream job may result in your dream life only being experienced in your dreams. Wake up already!

Let's bring the discussion back towards financial planning. Assuming your job is completely unrelated to your goals and is unsatisfying, could it nonetheless still be the means to your desired end if you can commit to the planning required? Retiring to your new calling in life may not be realistic at age 40. But what if we try 55, 60 or 65?



This chart was published on the National Institute on Aging Website and shows female life expectancies in various developed countries, over the last 150 years[9]. It clearly shows that major decreases to life expectancy caused by the ravages of war and disease have almost entirely been eliminated (at least in advanced nations). There has also been a steady increase in longevity in recent decades, though perhaps this rate is slowing down. At least this is our view.

Even so, this does mean that a relatively healthy person who has planned their financial life, could well be redefining their retirement at 55, 60 or 65. Perhaps it may be Career 2.0 or even 3.0.

Remember Colonel Sanders? And that was 50 years ago!

If your retirement/investment portfolio, coupled with your savings portfolio, was able to provide enough income to allow you to attempt Career 2.0, would you try to climb the staircase we showed above?

A final couple points to ponder. Let's assume you struggle to make a relatively tiny income from Career 2.0. However, if combined with distributions from your retirement/investment portfolio, it allowed you to maintain your desired standard of living, there could be two additional, beneficial impacts:

1. It could help you delay drawing Social Security benefits at an early age or even at FRA (full retirement age). For someone with a PIA (primary insurance amount or standard Social Security monthly benefit at FRA) of $2,000 at age 66, drawing Social Security at age 62 would result in a starting benefit of only $1,533. Delaying until age 70 (the latest anyone should delay) would result in a benefit of $2,650. The difference in these two amounts (i.e. waiting from 62 to 70) is a cool 73%[10].
2. Not drawing Social Security from age 62 until age 70, while you pursue your Career 2.0 for instance, guarantees that you will not be paying income tax on benefits you would not be currently receiving.

OK, Designers, We're Doing a Custom, Private Financial Product...Chop-Chop!

A certain prestige exists when someone can afford to have their clothing custom made, or has the wallet to buy exclusive designer labels and then have a master tailor or dressmaker form the garments exactly to their individual shape.

“Buy off-the-rack? Heavens, no. Thurston and I would never dream of it!”

While cost is the chief impediment to the average person wearing custom made clothing, the gifted amateur seamstress can stitch the wonderful creation that soon draws envy at her family's gatherings.

Surely a custom designed financial product would also be very expensive and simply be outside the reach of the average person, right?

Before we dismiss the notion as a pure pipe dream, let's clarify what we mean and how this could be applied in real life.

Manufactured products usually go through a somewhat long cycle to get from the drawing board to your living room. A financial product such as a security, certificate of deposit, mortgage loan, etc. also goes through a cycle where an idea is fleshed out, the proper regulatory filings are made, documentation is created, assets are allocated, notices are sent and ultimately advertisements are generated. Imagine a TV commercial exhorting the public to buy the latest and greatest mutual fund product:

“*Calamity High-Turnover Fund Class A. Hey, it's been a top performer for the last three weeks, so how could you go wrong?*”

What if, instead, we strip away all the overhead, hype, middlemen and layers of documents, to come up with a one-on-one financial product that is customized to the needs of the parties involved and no one else? Some would say that this is no financial product at all. It would merely be a customized financial transaction between two parties. And that dressmaker who custom made the spectacular outfit your spouse wore during your reunion? That wasn't exactly a “product” either, but it certainly fit the bill, didn't it?

To get down to specifics, we are focusing on the ability to create private, mortgage backed loans in specific instances where it would be worthwhile to both parties, the lender (investor) and the borrower. These private mortgage loans are definitely investments and not what we would call “savings”. They can be categorized as belonging to the fixed income side of your portfolio.

We are not referring to a person selling equity shares in Me, Inc. and running afoul of SEC securities law. We also do NOT recommend that a person, while potentially interested in this alternative asset class, begin searching the Web for these kinds of investments.

The place to find these opportunities is right under your nose. The first step is recognizing that they exist. The second is determining whether the opportunity may ocur to do a transaction with another person whom you already know well and respect. The other side of the transaction must be logical and cost effective for the other person.

Our main points in dealing with these situations is to remember:

The transaction needs to be in the best interests of both parties.
It needs to be win-win, or else it will lack commitment from potentially one side.
It also needs to be handled in an exemplary, professional manner.

This is in stark contrast to informal family loans done with just a handshake, wink or nod. A detailed example may be useful at this point.

Imagine that a couple nearing retirement see that their investments are allocated properly, but they do not appreciate the lack of interest they are earning on their bank CDs and short term bonds. They also are concerned over what will happen if bond yields "normalize" in the next few years. They desire a known, fixed rate of return greater than what their bank is offering, some relative safety of their principal and a counterbalance to their stock and mutual fund portfolio.

At the same time, their daughter and son in law are struggling to save up the down payment for their first home. So much of their income is directed to paying their student loan debt (which both of them have amassed) and rent, that they struggle to even save the 4% of their pre-tax salaries that qualify for employer matching in their respective 401(k) retirement plans. They see a nearby townhouse they like go on sale. It's in good shape and has been reduced in price from $250,000 to $225,000. Qualifying for a mortgage will be very tough for them. Their overall debt level and credit scores do not look very attractive to lenders. They would need to liquidate all of their emergency fund, just to help with the down payment.

A quick check on Bankrate.com[11] found no loans available in a local area, assuming a 670 FICO and 5% down payment. After increasing both their credit score and down payment in the mortgage loan selection process, we were able to get some results to come back.

The parents have stressed that now would be a good time to purchase a home and prices have been rising. To their way of thinking, the couple's $2,000 a month rent payments are just being “thrown away”. But is giving their daughter and son-in-law $45,000 for a down payment practical for them? They decide against it. Then they think about loaning them the money for the down payment. After all, their latest bank CD is coming due and they see can now earn slightly more than 1% APY on a one year CD. Whoopee!

<u>But could we create a win-win solution that solves both problems, is tailored to the specific facts and circumstances of their case and also minimizes costs</u>? Certainly, and here's how.

These parents know their children well and also know the area where they would like to buy. They have checked out this townhouse and find it acceptable as a starter home, although slightly pricey in their minds. They suggest that the youngsters pursue the house aggressively, but try to get it for less. They suggest they will provide the mortgage loan financing, but still require that the children bring a $5,000 down payment of their own. This makes sure that they have at least this much “skin in the game”.

However, they also recognize that interest rates will go up at some point, perhaps significantly and that this investment in a mortgage on their children's home carries more risk than their savings. They require and expect a higher interest rate than a bank savings product or 30-year US Treasury bond. They would also like to be repaid in a much shorter time than the 30 year mortgage loans that are most common. Hey, they're not getting any younger.

Realistically, their goal is to achieve a balance that they and their kids can live with. This is where either knowing personal finance pays off, or hiring an hourly financial planner can be very useful. Multiple scenarios should be analyzed, that involve the budgets and cash flows of both parties.   In finance, as well as engineering, this can be called “constrained optimization”.

The home is ultimately purchased for $219,000 after some back and forth negotiations. Mom and Dad settle on requiring a $7,000 down payment, bringing the loan amount to $212,000. They all agree on a fixed 5.5% interest rate and rather unique 12 year term. The monthly payment is calculated to be about $2,014. Given that this is only slightly more than the young couple's current rent, they are satisfied, since this amount will not be increasing. But they now also have a $225 monthly HOA payment and property taxes to pay, in addition to occasional maintenance and repairs.

Mom and Dad paid for their attorney to draft the mortgage document and loan note. These are standard type documents, for which any experienced real estate attorney will have software templates. The mortgage lien was recorded at their county clerk's or recorder's office, just like any bank originated mortgage would be[12].

From a cost standpoint, it should be pointed out that Mom and Dad in this example would otherwise be investing in high quality, low cost mutual funds. Suppose their annual expense ratio is only 0.30%. For a $212,000 investment, they would otherwise pay more than $7,000 over the entire 12 year period. Instead, their financial planner, attorney and recording costs total to around $700. These costs occur one-time, although a satisfaction of mortgage document will still need to get created and recorded after the loan has been completely repaid.

The young couple close and move into their new home. They dutifully pay their mortgage on time. But here is where they make use of their bank's automatic bill pay service and they do not need to lift a finger. They have scheduled a recurring payment that takes money out of their checking account and creates a paper check, which is then mailed to Mom and Dad. It arrives around the 15th of the month, based upon mutual agreement. The payment for the prior month is due on the 1st of the next month. Mortgage loan note payments usually come with a 15 day grace period and this one was no different.

Let's summarize the benefits to both parties, as well as the commitments they have made.

For the children:

1. They are able to purchase a home much sooner than they otherwise would and are immediately building significant equity, due to the shorter loan term.
2. They have avoided lender "closing" costs. We assume in this example that the parents paid for the attorney and associated financial planning services that analyzed the scenarios.
3. They do not need to pay PMI (private mortgage insurance), even with their miniscule down payment, saving them money that can go toward paying down the debt.
4. They will own their home free and clear in a much shorter period of time: only 12 years.
5. In the first year, for instance, their interest costs will exceed $11,000. Together with real estate taxes, they will be able to claim these as itemized deductions on Schedule A of IRS Form 1040.
6. Since they are building equity so rapidly (almost $13,000 of principal reduction in the first year), if interest rates stay low and they qualify for a conventional bank loan at some point in the next few years, nothing will be lost. Their parents will be repaid and they will be able to either continue paying down their debt based on

their new loan, or refinance to lengthen their term and lower their monthly payment.

7. The realize that their parents have entrusted them with a loan and are depending upon the interest payments. A real mortgage and note exists and has been recorded. Payments have been automated. They are now on the hook for this cash flow to the same extent as their previous rent payment. What if either one of them loses their job? They sit down and discuss it with their parents in a professional manner and conclude that they would consider making a distribution from their employer retirement plan in order to keep up with the mortgage payments, until they found another job.

For the parents:

1. They are able to generate a monthly income stream of just over two thousand dollars. Combined with their estimated employer pensions at their current ages, this may allow them to retire earlier than expected.
2. The monthly income stream over the next 12 years will allow them to postpone drawing on Social Security benefits, thus allowing those benefits to earn delayed retirement credits.
3. To the extent that they do not need to withdraw as much from their other investments each month, they are able to treat a significant part of their investments as a "longevity portfolio". As a result, this portion can be invested more aggressively, because it will not be tapped in at least the next ten years.
4. Since almost $13,000 of the first year's payments represent principal, which is a return of capital and is therefore untaxed, this income stream will generate much less in taxes than their traditional IRA, where 100% of the distribution will be taxed as ordinary income.
5. They realize this is a real investment and is not a bank CD. If the cash flow were ever interrupted, they would immediately sit down with the children and determine what the source of the problem was and how it can be resolved. All options, including the threat of foreclosure, are always on the table. The fixed 5.5% interest rate helps to compensate for the potential risks.

While this example can be classified as an intra-family loan, we view it as one type of private mortgage. A private mortgage is simply a type of "customized financial product". But things can get much more complicated and the private mortgage can be structured to meet these more complex requirements.

Consider the case of the investor who knows that a friend could replace existing high interest and non-deductible credit card debt with a second mortgage. The investor finds out that their friend's home is worth significantly more than the first mortgage balance, but their credit score is not too great, even with their high income. The investor also would like to make this private mortgage using IRA money. He is currently several years away from reaching the magic age of 59 ½, wherein distributions can be made from his IRA without the 10% penalty and without using various exceptions, such as rule 72(t).

Let's throw in more requirements. This investor is worried about what we call reinvestment rate risk. In other words, give him a monthly payment and he will need to hunt around for some place to invest it again, until he starts spending it, let's say after age 59 1/2. The risk involved in not finding the appropriate alternative is called reinvestment rate risk. He may receive a payment and then put it in a bank account earning next to nothing, for example.

But we're not done. His friends have a daughter going off to college soon. So in addition to credit card debt, they are taking on the arduous task of paying for her college education out of current income. If they could somehow focus on college and on paying those credit cards, without worrying about paying the second mortgage, life would be great. But would this be too good to be true?

Here is where our private mortgage really is a custom designed financial product. Imagine these features and terms:

1. For the first four years of the loan, interest will accrue on the mortgage note, but no payments of any kind will be made.
2. The investor requires a somewhat elevated interest rate to take into account that this will be a second and not first lien, on the property. 7% is selected for the first four years.
3. This means that a $70,000 loan amount that would normally generate principal and interest payments to the lender, would instead accrue interest inside the mortgage note itself. After the four years have passed, the mortgage balance would be slightly more than $90,000.
4. At the end of the four year period, the interest rate will be reset, based upon a base of 3.75% added to the then current Prime Rate published in the Wall Street Journal.
5. This new interest rate becomes the new, fixed rate on the loan for a new term of 10 years.
6. The loan is now repaid as a conventional mortgage loan, with monthly amortizing payments of the new principal amount at the new interest rate, for a period of 10 years.
7. During the first four years as principal was accruing on the note, the investor would have been taxed on these accruals, even though no actual payment was made. However, the investor used his Self-Directed IRA (SDIRA). The

mortgage note was held by his SDIRA and since it is a tax deferred entity, he did not have to pay income tax. We will discuss the SDIRA in much more detail in future issues of this newsletter.

8. When the 10 year period begins, it will not be a coincidence that our investor has magically surpassed the 59 ½ year age threshold. He goes from not wanting interest payments at all (almost a revulsion) to being addicted to monthly payments of both principal and interest (oh yes, he's now retired).
9. It was also a win-win for the borrowers (the parents), who had no cash outlay for this loan during the first four years, allowing them to concentrate on paying off credit card debt and financing their child's college expenses.

There certainly were a lot of moving parts on this custom job. You may find your situation needing far fewer, or perhaps a lot more. The beauty of this approach is that customizations are not only tolerated, but they are actually sought out. <u>The facts and circumstances of the two parties (i.e. their mutual need to come together) created the situation that led to the custom private mortgage</u>. In addition, financial planning drove the analysis of various scenarios, which led to the finished "product". Lastly, these private mortgages need to be fully documented and recorded, just as any other mortgage would be.

A couple additional, more technical points, to keep in mind.

The IRS requires that the interest rate charged on these types of loans be equal to or greater than the Applicable Federal Rate (AFR)[13]. A loan of 9 years or longer would require an interest rate to be at least as high as the long term AFR. As of May, 2015, this rate is less than 2.5%[14]. In other words, the AFR is at a low enough level that if one party wanted to give a somewhat low rate to the other, this would be feasible. To be clear, this is the lowest rate for this length of loan that could be given by a lender and still be considered a "market rate" for a bonafide loan which is not considered to be a gift.

The payment process can be even more streamlined. Many banks will allow the setup of a scheduled, pre-authorized ACH debit. This will require both parties to sign a document authorizing that a certain amount of money be automatically debited from one bank account and transferred electronically to the other party's account on a periodic basis, such as monthly. Since by definition, the ownership of the two accounts is different, this is not something that either party will be able to set up from their own online account at one of the banks. But this step further automates the process, and may not cost anything extra for existing customers of the bank initiating the transfer.

Finally, a private mortgage could also be structured as a reverse mortgage, if the need was to provide the homeowner, who is age qualified (62 or older), with cash flows from much younger persons, such as family members. The investment of the young people may be made in an attempt to keep the family home in the family. Some or most of the costs usually associated with reverse mortgages could be bypassed, depending upon how it was structured. There are even firms that get involved in facilitating the process and acting as a loan servicer[15]. Our only issue with these types of services is value for the money being spent. If we can justify $2,000-$3,000 for such a service through the life of the loan, perhaps it would be worthwhile. But payment processing can already be automated for free or little cost, while a financial planner and attorney may be knowledgeable enough to guide you through the “product creation” or setup process, for a much smaller upfront fee.

A Loan From My 401(k)? Seriously? But When Should I Consider This and How Should I Take It?

By now, most people have heard the mantra that taking a loan from your 401(k) plan is a bad idea. Yet, a lot of loans are still requested, year after year. Much of the time, the purpose of these loans is not really on a par with the source of the funds (i.e. your retirement account), making it a questionable exercise. However, there are several cases in which taking a loan from an employer sponsored retirement plan is definitely a sound idea.

Have we gone bananas, or have we just put a peel out there for you to trip on? As with so many things in financial planning, the issue is really about analyzing a problem fully and then looking for answers to the 5 W's and H: The Who, What, When, Where, Why and How of Personal Finance.

When financial gurus and others close their minds to something and proclaim that you should never do something, this almost by definition provides fertile ground to analyze and try something out. Our focus is on defining the When and How.

We begin by restating our ***Castling*** principle:

The simultaneous use of two fundamentally different things, in such a way that you achieve a result that could not have been achieved using just the one or the other.

We will demonstrate how we use this principle to see whether there would be a few circumstances when taking this loan is not only called for, but almost ideal.

But first, let's imagine taking that loan from your 401(k). Hey, you just legally robbed your retirement account. Are you proud of yourself now? What would your own mother say?

Obviously, even for people who do take retirement plan loans, there is a certain stigma attached. So we often tell ourselves and others that we had no other choice. We just had to replace the old Norge refrigerator or our daughter was getting married. Life happens and here is a ready stash of cash.

So in our opinion, the first thoughts should be along the lines of identifying what this money represents to you. <u>If these really will be your retirement funds to see you through the rest of your life, the purpose of the loan should also be something long lasting and just as relevant</u>. A vacation or other pure consumable item just doesn't seem to make the grade, in our opinion.

Of course, things break down. But this is exactly why we should have emergency funds. Major events are planned or should be, such as weddings. But this means at least some of the funds should be planned and saved in advance, although we recognize this is often not feasible. But then again, diamonds may last forever, even if we can't say the same for marriages.

The ***CastlingFP*** approach is that both our investment and savings portfolios are long term assets. So <u>if the source of funds is our retirement account, the use of the loan proceeds should be related to either long term savings or investments outside of our retirement plans</u>.

However, liquid savings vehicles have not fared well over the last seven or eight years. So taking a loan from a 401(k) in order to stick the funds into a bank CD at 1-2% annual yield does not appear to be a smart idea. But please recall that we consider your savings portfolio as comprised of not just liquid savings, but also the equity in your home. We never consider your primary residence to be an investment, since you are not generating income from it (typically), but you are receiving the economic utility that comes from living in it. You need to live somewhere, but you are probably not putting aside the owner's equivalent rent of your home. It is our view that residential real estate, given a long term outlook and multiple market cycles, delivers appreciation of around 1.0 to 1.5 times the rate of inflation. While not spectacular, this certainly is better (much of the time) than liquid savings vehicles.

As an example, we think that someone using a 401(k) loan to help themselves to buy a home, can be a very good opportunity, given the right circumstances. We do not advocate doing this just to buy a larger, more expensive home. Not at all. But consider the case if the buyers simply do not have enough to make a 20% down payment. As a result, they will have to pay for private mortgage insurance (PMI), which could cost anywhere from 0.30% to as much as 1.50%, per year, depending upon the size of the down payment and the credit scores of the borrowers[16].

Let's assume that we have a couple, Cliff and Martha (each aged 33), who want to buy their first home. Their credit is good, but not excellent, with a FICO credit score of around 710 each. The home of their dreams can be had for around $250,000. They have been saving for a down payment for a few years, but paying off student loan debt early on was a bigger priority. Given their rent and the other expenses of a comfortable, but not at all posh lifestyle, they feel that their current $25,000 down payment is all they can afford, since even that amount will eat into their remaining emergency fund. They do have reasonably good cash flow and have figured that they can quite easily afford the mortgage payments on a $225,000 loan.

They each have been working in their careers for about ten years and have been contributing to 401(k)s for nine of those ten. They each did a transfer of their account balance from their old employer to their new company's plan, because of some issues raised by their independent financial planner. Had they rolled over assets to IRAs instead, certain options such as the ability to take out a loan, withdrawals at age 55 due to separation from service and special tax treatment of employer stock, would have been lost. Most of all, their new employer plans offered a wide selection of very low cost funds.

Martha has been the most patient of the two in terms of investing and has also been a diligent saver. So her 401(k) account balance has now reached $100,000, while Cliff has only $60,000.

They have been informed that with only a 10% down payment ($25,000), their lender will charge them 0.50% per year for PMI. On a loan amount of $225,000, this will be $1,125 per year in additional cost. Although PMI can be canceled when the outstanding balance on the loan drops below 80% of the home's value, this could take more than five years, assuming current interest rates and a fixed, thirty year loan.

Here we see an immediate benefit. Taking a single $25,000 401(k) loan, would allow Cliff and Martha to double their down payment to $50,000 and therefore, avoid PMI entirely.

Saving $1,125 per year for five years is functionally equivalent to earning this same amount. A $1,125 “yield” on a $25,000 “investment” is like “earning” a 4.5% return.

But this is nowhere near the end of the story for Cliff and Martha. Consider if they do not take the 401(k) loan. Reviewing their situation, they may conclude that it is not currently worthwhile to purchase a home, until they can afford the 20% down payment. The clock ticks on, but the calendar rolls on. What will happen to home prices in the interim? If their hypothetical dream house appreciates at roughly 2.5% per year, after five more years, it will now cost almost $283,000. A 20% down payment will then amount to more than $56,000. Their current down payment is currently earning next to nothing in a savings account and is not expected to keep pace over the foreseeable future. They will need to save more. While they enjoy the condo that their rent together, they realize that five more years of lease payments will also take away money that could have gone toward building equity in a home of their own.

We would like to stress that not everyone should own a home, or at least not everyone at every point in their adult life. There are many valid reasons to rent, some dealing with personal preferences and others dealing with personal finances. In this example, the emphasis should be placed on the fact that our couple would really like to own their home. At the same time, they are trying to be very responsible, financially.

Would we recommend that Cliff and Martha save more (and more quickly) for their down payment by liquidating their emergency fund or stopping contributions to their 401(k) plans? Wait a minute! <u>If borrowing from the 401(k) was, by conventional guru wisdom, not such a great idea, why would suspending or dramatically reducing their contributions be a good idea</u>?

While we can easily quantify the savings of not having to pay PMI, determining the overall benefits of purchasing now versus in the future can be figured in a multitude of ways. Suffice it to say that building home equity, something they eventually wanted to do anyway, is within their grasp if they either swallow the bitter PMI cost or take out a small 401(k) loan.

One of the often repeated warnings associated with retirement plan loans deals with the issue of repayment, in case of job loss. The former employee typically has 60 days to pay the loan back in full, or face the reality that the IRS will consider the loan to be a premature distribution, subject to ordinary income taxes and a 10% early withdrawal penalty, if the participant is younger than 55.

This is a valid concern. Here is one strategy around it. When dealing with couples who each have retirement plans at work, verify that both offer loans. If so, take a loan from only one employer's plan, but not both. If that participant gets laid off, the loan comes due. At that point, <u>the spouse or partner could then immediately take out a loan in response and use the proceeds to pay off the first loan, without the first loan incurring any taxes or penalties</u>. Obviously, this does take some cooperation between the two, but since our overall premise is that they are buying a home together, the presumption of cooperation should not be too farfetched.

Our couple consults with their financial adviser. He analyzes their situation, making the above points. He then reviews the terms of Martha's 401(k) plan loans. Here is how her situation appears:

Interest Rate on Loan:	4.00%
Loan Amount:	$25,000
Loan Term (Years):	5
Typical Service Charge for Loan (One Time):	$50
Monthly Payroll Deduction Payments:	$460.41
Total Amount Paid Back over Loan Term:	$27,624.60
Total Interest (Paid Back to Own Account):	$2,624.60

One of the pearls of financial guru wisdom is that you will be paying taxes twice on borrowed funds, since you pay the loan back with after tax dollars. This is simply not an accurate statement. Keep in mind that the loan proceeds are disbursed to you free of income tax. Money that you pay back is indeed after tax (via payroll deduction) funds. But the principal you pay back on any loan is being paid back with after tax dollars. It is no different with a 401(k) loan.

In the above example, $27,624.60 is the sum total of all payments over the life of the loan. So the $25,000 you borrowed from the account is being put back. <u>It was handed to you free of tax and by the time five years have elapsed, you will have paid back the same amount of principal, free of tax. When you ultimately take a distribution from these funds, ordinary income taxes will become due</u>.

<u>It is only with the interest payments, that taxes are being paid twice</u>. These interest payments are a curious thing. Employer retirement plans are not banks, sitting with piles of cash, waiting for borrowers to walk in. A plan loan means that funds are being deducted from your account. Generally speaking, interest that is charged to the participant gets paid back into their own account. <u>The interest is paid back with after tax funds. Later, when you take a distribution, you will pay income tax again on this amount</u>. But it is only on the interest amount and not the principal. This seems to be quite bad, until you recognize that the amount of money involved may be pretty modest (“Total Interest”, as shown above) and that you have been paying it to yourself. Compare that to the alternative of having paid the $2,624.60 to someone else and now that money is sitting in someone else's account!

Another way of looking at this is that the interest rate you are paying on this loan, 4% in this example, is not your real pre-tax rate of return, since you paid it back with after tax money and will pay tax again on the way out at distribution time. We need to know the marginal tax rate of the participant. Let's say that in our example, it happens to be 28%. So 4.00% x (1 – 28%) = 2.88%. Let's keep this number in mind, because we'll be using it for comparison a bit later on.

We made reference to our ***Castling*** principle early on. Here is how we apply it to our scenario. Cliff and Martha are fairly cautious investors. Being at an age right between the end of Generation X and just before the Millennials, they were very early in their careers when they experienced the financial crisis. While they dollar cost averaged in at very low prices, they also became more cautious as the stock market rebounded.

Here is how Martha's 401(k) account balances look like, just before the loan:

Before 401(k) Loan:		
Major Asset Class in 401(k)	**Starting Balance**	**% Allocation**
Total Stock Market Index	$60,000	60%
Total Bond Market Index	$30,000	30%
Money Market Fund or Stable Value	$10,000	10%
Total Market Value	$100,000	100%

Another of the areas they are cautious about is the bond market. While her investment in a stable value fund is currently earning only about 1.5%, she is not concerned about the principal value. However, their adviser did make mention of the fact that if bond yields increase somewhat over the next few years, her Total Bond Market Index fund may have a losing year(s) and potentially be flat over a several year rolling period of time.

Are there two fundamentally different things we can make use of here, as in ***Castling***? Yes, we believe so. While the loan proceeds help in both saving money on, as well as realizing their home purchase sooner (thus strengthening their savings portfolio), the other side of ***Castling*** involves loan payments that are made by Martha using standard payroll deduction.

Just after the loan proceeds were disbursed and before the payroll deduction began, here is how her 401(k) looked:

Right After 401(k) Loan Released:		
Major Asset Class in 401(k)	**Current Balance**	**% Allocation**
Total Stock Market Index	$45,000	60%
Total Bond Market Index	$22,500	30%
Money Market Fund or Stable Value	$7,500	10%
Total Market Value	$75,000	100%

One thing to notice is that the account simply has $25,000 less, but the asset allocation remains the same. Generally, the disbursement will come from each of your invested funds, on a pro-rata basis. Then when the loan payments begin, usually with each pay period or once per month, the payments flow back into the 401(k), using the asset allocation formula the participant has in place.

But this is where we can get a little creative. Another of the common negative perceptions of 401(k) loans is that you give up investment like returns in order to pay yourself back a mere pittance. This can be the case if no action is taken. But the problem is easily solved when Martha, with some help from their adviser, reallocates her assets as follows:

Reallocating After 401(k) Loan:		
Major Asset Class in 401(k)	**Current Balance**	**% Allocation**
Total Stock Market Index	$60,000	80%
Total Bond Market Index	$15,000	20%
Money Market Fund or Stable Value	$0	0%
Total Market Value	$75,000	100%

The amount invested in the Total Stock Market Index is now back to where it was before the loan was taken. The amount in the bond fund reflects some caution over the potential of higher yields leading to flat or negative total returns in the next few years. What we do not see explicitly is a new asset class: the loan repayments, including the interest that they accrue. These payments will make their way into the existing funds, using the allocation percentages which have already been defined. But additional manual changes can be made to fine-tune this. Dollar cost averaging or additional purchases after market declines in both stocks and bonds can be made.

What if Martha and Cliff remain cautious, but buy on some dips and are otherwise satisfied taking it slowly? After five years of very modest gains across all asset classes, Martha's balances might wind up looking like this:

Paying Back After 401(k) Loan:		
Major Asset Class in 401(k)	**Future Balance**	**% Allocation**
Total Stock Market Index	$87,000	69%
Total Bond Market Index	$20,000	16%
Money Market Fund or Stable Value	$20,000	16%
Total Market Value	$127,000	100%

We highlight in red that their allocation to stocks has gone up over time. So the fact that she took out the loan did not mean that her allocation to stocks must be reduced or that her returns had to be deeply impacted. We pointed out above that our estimated return for this new loan repayment asset class was 2.88% (the interest she paid herself back, which will ultimately be taxed again).

However, 2.88% compares very favorably with money market or stable value funds in 401(k)s over the last five years. Looking out at the bond market over the next five years, many analysts see very low total returns (some would say negative), as interest rates slowly rise. By comparison, if we purchase a 5 year US Treasury note, the current coupon rate as we write this is only 1.50%. So what is so awful about a 2.88% return on fixed income, while the principal remains intact (as long as we make our payments)?

For younger 401(k) participants who desire to purchase a home as part of their long term savings portfolio, the above use of a plan loan could be a well thought out strategy to boost home equity, cut costs, as well as strengthen the fixed income side of your 401(k).

For older 401(k) participants who already own a home, there may be a way to use a plan loan to bolster their investment portfolio outside of the employer plan, while still having the same effect on the fixed income side of their 401(k). For these folks, the dollar amounts may be greatly magnified. It would not be unreasonable to think that a 50 year old employee should have an allocation that includes both short term bonds and cash, as well as stocks and longer term bonds. If the cash and short term bond side is currently earning 0-1.5% and this is not likely to improve soon, paying yourself back the equivalent of a 2.88% return, as shown above, may be more desirable.

We certainly do not recommend taking a loan out just so that you could pay yourself more than your short term bonds are earning. The key is having a long term investment or savings opportunity, outside of your 401(k), that could be realized if it was funded.

But what if you already had a credible and prudent investment opportunity outside of your 401(k) plan, for which you were short of funds? Would you borrow from a bank to make the investment, or see this as being too risky, as it would result in having a “leveraged investment”?

In the above example, Martha's employer plan offers a total stock market index fund. It would not make much sense for her to take out a loan, just so she could invest in a similar fund, outside her plan. But what if it was clear that her 401(k) was an ideal place to invest, but her employer's plan had only a few options or lacked several desirable asset classes?

We have found that while the number of fund choices in most employer plans has increased significantly over the last decade, a few asset classes still seem to be under represented, such as real estate investment trusts (REITs). A REIT mutual fund or ETF, such as the Vanguard REIT Index would be a good option. Dollar cost averaging into any fund or stock would be prudent, so unused loan proceeds may need to sit securely in a money market fund or savings account, while waiting to be deployed. Spending this cash on consumer items merely reinforces the preconceived notions that those financial gurus have of the general public.

Another approach when dealing with this issue would be taking multiple, smaller loans, over a period of time that corresponds to the dollar cost averaging in the outside investment vehicle. The employer may charge a service or administrative fee on each loan taken out. In the above example, Martha was charged $50 for the privilege of taking the loan. This is a one time expense and as long as it is under 1% of the amount, should not be a reason to give up on these loans.

Overall, the value of loans outstanding may not exceed the lesser of $50,000 or 50% of the participant's vested account balance. The term of these loans is usually five years. There are stated exceptions in the regulations, when purchasing a primary residence. However, since we rarely see actual 401(k) plans with these provisions in place, we will not discuss this option in more detail. Furthermore, the employer, who is typically the plan sponsor, is only allowed to offer loans as long as they meet certain conditions. This means that there is no obligation for any 401(k) plan sponsor or custodian to offer loans.

No IRA can have a loan feature. So it would be wise to consider this a potential employee benefit, even if you wind up never using it. Find out if your plan offers it and what the terms and conditions are. Then simply keep it in the back of your mind.

Some people, while they are active participants in an employer sponsored retirement plan, have income levels which would still allow them to make a deductible IRA contribution. Or, they may have a spouse who is not an active participant, thus pushing up the joint filing income threshold which qualifies for a tax deduction.

What if their cash flow simply did not allow another $5,000 to be saved for retirement, but their financial plan depended on socking more away? Let's say they are currently in the 28% combined federal and state marginal income tax bracket: $5,000 x 28% = $1,400, of new tax savings if they could only make this contribution.

This idea does assume that they could support the $90-$100 additional monthly payment, back to their 401(k), that would result from taking this action.

Let's remember that the reason for the 401(k) loan is long term savings or investment outside the employer plan.

So what if it's not a $5,000 loan to support an IRA contribution headed for a diversified fund that is simply not available in our 401(k)? What if we are contemplating a much larger investment that is much less diversified?

The maximum 401(k) loan amount is $50,000, which may not be considered all that significant when investing in something like real estate. But consider if you already were contemplating a real estate investment and almost had enough funding and financing lined up. If the gap was under $50,000, would you pull the trigger?

At ***CastlingFP***, we simply can not tell anyone that there is one right answer to this question. There should be a real investment on the other end of the loan proceeds you will be withdrawing. It should be something that is both worthwhile to invest in and unavailable in your employer plan. Real estate is a great diversifier for an investment portfolio comprised of only financial assets. Even so, one piece of real estate does not constitute diversification in that sector. Therefore, this situation would need to be evaluated on a case by case basis, using judgment and experience.

Oftentimes, the catalyst for a real estate investment is the intense interest and/or experience of the investor. If we couple this with proper planning, patience in waiting for the right opportunity, trying to prearrange as much funding and financing as may prove necessary, and if taking a 401(k) loan would serve as the lynchpin in making the whole thing work, would you do it?

Given the above homework, performing your own due diligence and getting any advice and planning help where and when needed, we can emphatically recommend: Yes! This may not be the answer most financial gurus will give you.

The 401(k) loan is a plan feature which is not always available. Where it does exist, it may be: overused to help pay for unaffordable consumption, an excuse for not doing simple budgeting, or as a desperate measure in an emergency. While we realize that it has been used poorly in the past, we have demonstrated here that it can also be a very useful tool, when utilized for the right purpose and in a sensible way.

Help realize your long term investment and savings goals by putting the power of the ***Castling*** principle to work in many ways, including using 401(k) loans.

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Do you currently have an adviser who says he offers you "free" advice? We are so confident that we can save you money over your current adviser (based on your <u>total costs</u>), that <u>if we can't demonstrate how during our initial meeting with you, we will offer to perform your financial planning services in 2015 without charge, completely pro-bono</u>.

*"Free" advice is worth exactly what you paid for it. How do you separate where the sales presentation ends and the analysis begins? **Castling Financial Planning, Ltd.** advises everyone to stop paying for the privilege of buying a financial product, such as through commissions and sales loads. We also disagree with the concept of paying asset management fees to a %AUM based adviser. Does he actually spend a great deal of time working on your finances? By definition, he has an obligation to provide "continuous and regular supervisory or management services" for your securities portfolio. Good luck finding a definition for "continuous", other than having this apply to the continuous fees YOU wind up paying.*

We believe financial planning services should be billed for in the same way as your accountant, dentist or lawyer. You pay each based on their time expended and for their professional expertise, not a percentage of some amount.

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How to Check Out Our Investment Adviser Registration

Point your Internet browser to the Securities and Exchange Commission (SEC) Website at:

http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx

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Choose “Firm” and then in the Firm Name search box, enter the word: “**Castling**” without quotes.

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On the Investment Adviser Search results page, click on the Investment Adviser Firm link. Our CRD (Central Registration Depository) number is **150844**.

Click on the “**Illinois**” link shown on the next page.

This should bring you to our complete Form ADV filing. Please take your time browsing it and comparing with your current financial adviser's filing. If they do not have their own Form ADV filing, they may be a stock broker, insurance agent or even be unregistered as an adviser. You may be somewhat surprised to compare Part 1A: Item 7 “Financial Industry Affiliations” with that of other advisers. Affiliation is really a euphemism for “conflict of interest”. A completely independent adviser will not have any box checked on this page.

Lastly, we encourage you to download our Form ADV Part 2 Brochure, from the SEC Website. It is important to note that many advisers do not make this important document available until after you contact them or just before you sign an advisory agreement with them. While this behavior is technically legal, we find it to be not in the best interests of clients.

Our brochure covers our advisory services, approach to clients and also our very affordable fee schedule.

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