Castling Financial Planning, Ltd.

Helping You Secure Your Future™

henry@YourIndependentAdviser.com

Fall 2020 Newsletter:

When Your Neighbor Loses His Job, It's Called a Recession; When You Lose Your Job, It's Called a Depression...But When the Government Just Forces You to STOP Working, Why Do We Call It "Staying Safe"?

Back in March, we stated the following:

"A true change would be the end of this economic expansion and the start of the next recession. For the reasons mentioned earlier, we do not see this happening, as yet. But even if we did, it would still not be advisable to do wholesale panic selling."

We admit that we did not see the COVID19 pandemic coming. But frankly speaking, what was most shocking to us was the totalitarian economic shutdown that followed the arrival of the novel virus. It was this forced shutdown that caused most of the damage, not the virus. Our advice at the time was based on reason. We simply did not think it prudent to do wholesale selling.

Viewing events in their entirety, I think we made the right call. The patient, long term investor was subsequently rewarded with a stunning comeback in the equity markets.

Buying in through dollar cost averaging, beginning when each stock market index hit the 20% bear market drop from last February's highs, again proved to be a sound, but simple strategy.

This is not a political newsletter and focusing on politics is not the way we run ***CastlingFP***. But we will not make any apologies in our defense of free markets and individual liberty.

If life, liberty and the pursuit of happiness is the "big three", that make us the United States of America, then the liberty to pursue making a living is essential to making us free and keeping us free.

No one will ever repeal the business cycle. As a result, there will always be booms and busts, expansions and contractions. This is normal. When it happens to the "other guy", it is often that we say it is a "recession", but if the misfortune of a job loss happens directly to us, it would be like the metaphorical anvil hitting the cartoon character who didn't get out of the way in time. This would be a personal catastrophe. We refer to it as being a "depression". Our own depression.

The expansion ended this past March when a semi-coordinated attempt by the Federal government along with state and local authorities, attempted to shut down major portions of the US economy in order to slow the spread of the COVID19 virus. The expected duration was to be only two weeks at the outset, but this dragged on for some time. The entire nation never locked down fully and some states and localities never locked down at all.

We have never seen any proof that the lock downs accomplished anything, other than destroying the US and world economies. Yes, I admit that I am not a scientist. But there is no such thing as "settled science", nor does science speak with a single voice. In addition, most real world problems are not an exercise in simply plugging values into an equation in order to get a "correct result". There is usually a high degree of uncertainty in some variables and an extra "error term" that accounts for randomness that we haven't even accounted for, otherwise. The real world is probabilistic (messy) and not simply deterministic (textbook clear cut).

Recently, the **American Institute for Economic Research** (AIER), hosted three distinguished scholars in the field of epidemiology, at their headquarters in Great Barrington, Massachusetts. Together, they drafted a statement outlining an alternative approach to lock downs, entitled the **Great Barrington Declaration**. In it, they discuss how the lock downs have caused more harm than good. An alternative approach based upon "focused protection" of the most vulnerable, reads like common sense to us. Many other people who are not at risk should then go on living their lives as normally as possible. Thousands of medical and health care professionals have signed the accompanying petition, in support of this declaration[1].

It is interesting to see that very soon after its publication, **Wikipedia** had an article on the Great Barrington Declaration[2]. The article seems slanted and very critical, since it devotes much more space to negative commentary than to positive. It would appear that the "conventional wisdom" is to lock down healthy people, sick people, vulnerable people, all people. But why? When was there ever a public health crisis in which the lowest common denominator was applied to an entire population and the result was a real success, let alone an optimal result?

In engineering, we learn of a concept called "constrained optimization", which tends to govern virtually everything we can do in the physical world. In other words, we have an objective function that we are trying to minimize, maximize or get to a desired value. But there are constraints. If we push too hard on one thing, something else falls apart. The end result is that we need to be mindful of all the relevant variables and find that we can only hope to fine tune something as best as possible, but it will probably perform less than "perfectly".

Applying this concept to COVID19 is easy. Who wants more death? No one. But taking actions to shut down the economy in order to minimize COVID19 deaths, leads to other hardship, including other deaths (plus suicides), missed cancer screenings and skipped medical procedures. It appears that only preventing mass gatherings, such as attendance at live sporting events, has been useful and relevant.

A general lock down, in our opinion, is a blunt force instrument applied by so-called scientific and medical "experts" who have made others (mostly politicians) believe that they possess surgically precise information on outcomes. In reality, all they possess are guesses. Oftentimes, these are found out to be lousy guesses since these "experts" have no skin in the game. So it's heads they win...tails you lose!

Take for example the original simulation model from the **Imperial College-London**, that was instrumental in causing governments to lock down. It predicted 2.2 million COVID19 deaths in the US. As of this writing, the **Johns Hopkins University** Website devoted to tracking COVID19 cases, is reporting about 230K deaths in the US[3]. While this has certainly been a serious illness, it appears that the modeling was off by almost an order of magnitude (10X). In any other medical, financial or engineering field where lives and dollars are at stake and projects are committed to based upon such forecasts, would such "experts" be able to make a long lasting career by exhibiting such incompetence?

We have often poked fun at "Event Level Predictors" and their wild failures, but this has been limited to the investing arena. However, this is no laughing matter. Lives AND livelihoods are at stake. If we take a look at how the US compares with the largest European countries and a few others that took alternative approaches, we see some interesting results. We took the time to compile the following table on October 30th [4] [5].

Nation	Population	Cases	Deaths	Cases per Million	Deaths per Million
US	331,002,651	9,043,957	229,676	27,323	694
Germany	83,783,942	517,736	10,391	6,179	124
United Kingdom	67,886,011	992,874	46,319	14,626	682
France	65,273,511	1,377,347	36,605	21,101	561
Italy	60,461,826	647,674	38,321	10,712	634
Spain	46,754,778	1,185,678	35,878	25,360	767
"Euro Big 5"	324,160,068	4,721,309	167,514	14,565	517
Belgium	11,589,623	392,258	11,308	33,846	976
Sweden	10,099,265	124,355	5,938	12,313	588
Taiwan	23,816,775	554	7	23	0.29

The data were not cherry picked. We looked at how the US COVID19 cases and especially death, compare to the five largest nations in Europe (including the UK), as well as the smaller countries of Belgium and Sweden. We then added Taiwan, since they alerted the World Health Organization (WHO) very early on about human transmission of the virus. They were ignored.

The five largest Euro countries have a combined population similar to that of the US. They also engaged in much stricter lock downs than the US did, as a whole. While they kept their case rate per million population much lower, their overall death rate per million population has not been that much lower than that of the US (517 versus 694).

But what happened in tiny Belgium? Its case rate and death rate are both much higher than the big Euro countries and the US. We have not heard any "scientific" explanation for this. Didn't they lock down like the rest of Europe did?

Then what about Sweden? This country did not lock down at all, so its economy was only slightly wounded. Its people engaged more in social distancing than mask wearing. Its case rate is lower than that of the big Euro nations, while its death rate (588) is only slightly higher than that of the Euro 5 and is actually lower than that of the US. Sweden is currently "open" for business, while we are hearing various reports of Fall lock downs being renewed in the other countries.

Taiwan is on this chart just to demonstrate that if it were possible to identify the source of the threat early on and take preventive measures to stop incoming travel, these problems could truly be avoided. While the US banned travel from China and Europe at the end of January, this proved to be too late. Had the world listened to Taiwan when it raised the alarm, instead of listening to the WHO, the situation would be far different right now.

So where is the evidence that lock downs actually work? The Euro 5 destroyed their economies and now are going back into at least partial lock downs, while having not really controlled their death rate to a great extent.

We checked the Centers for Disease Control (CDC) Website for the distribution of all COVID19 deaths, by age. In the February 1st to October 24th period, we calculated that 79% of all deaths were in persons aged 65 and older[6]. Since this is also considered "retirement age", it is likely that most people aged 65 and older are no longer employed and not as active. Therefore, the subset of this group of people who live independently and who are still mentally fit, can choose for themselves. Give them unbiased and accurate information, which includes the various uncertainties and probabilities associated with the virus. They can then navigate how they would like to deal with it.

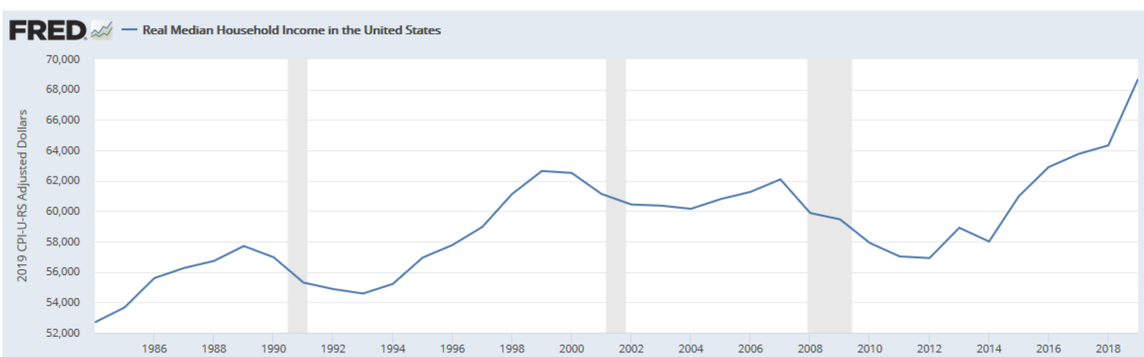
A one sized fits all solution coming from the "Ministry of Central Planning" has the same long term success rate as that of the late USSR. So why do some in the government still persist in propping up this fallacy?

Those who are older and infirm, or not mentally competent, need specific protection. This largely did not occur as it should have, since many COVID19 deaths occurred among the populations living in nursing homes. It bears pointing out that nursing homes and other senior care facilities are mostly privately run and regulated at the state and local levels.

I am willing to bet that I could walk into any university library and look for a textbook on nursing home administration[7]. Once located on a shelf somewhere, I would blow the dust off and page through it. I am further willing to bet that I could find content regarding emergency preparedness, infectious diseases and pandemics. So were disaster plans properly put into place and maintained?

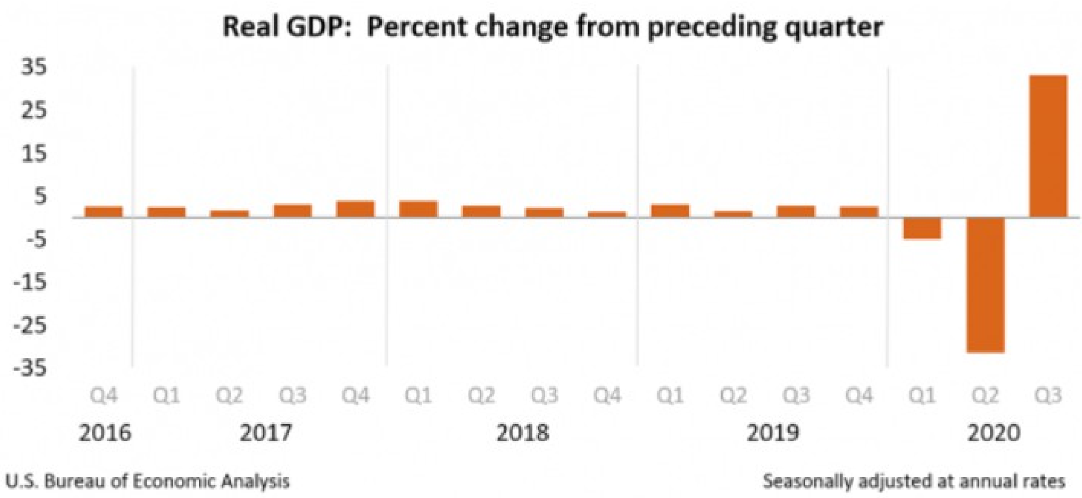
<u>If only 21% or fewer of the deaths from COVID19 are from the working age population, why apply the same lock down strategy to all?</u>

Getting back to the economy, if we review the 2019 Real Median Household Income numbers, they show a strong gain over the previous year to $68,703[8]. This is the highest income value reported since the data series began back in 1984 and was up from $63,179 in 2018. It was posted just in September, but received very little attention due to COVID19 and the election.



The economic damage was done when the US economy was shut down in large part, back in March. As soon as different parts were started up again months later, things began cranking somewhat. But putting *humpty-dumpty* back together again is not going to be easy. We think it will take a couple of years (not quarters) to get back to where we were, assuming we continue to grow. This last point cannot be overstated. Going back to a lock down state is truly ridiculous and irresponsible, in our view.

While the recently released GDP numbers for the third quarter were encouraging (up 33.1%), we see that we still have a long way to go[9].



The precise numbers are hard to see in the chart above, since the scale was changed to allow viewing the monstrosity that was created back in March. The first quarter saw GDP contract by 5.0%, while the second quarter collapsed by 31.4%. Putting the three quarters together gives us a total contraction of more than 13%. Clearly, we have a lot of digging out to do.

The stock markets are reacting to both the COVID19 reported spikes, as well as election uncertainty. However, it is clear to us that the markets are most happy when they see that the economy is allowed to operate more normally. Markets abhor the uncertainty of worrying about possible lock downs or other restrictions. The rebound from the March 23rd market lows demonstrates that this was not a long lasting bear, if the economy can function and if people can get back to work.

Most of the persons at risk from the virus are retiring or are already retired. Some of them need special protection or can achieve that protection based upon their own prudent actions. They have been around the block a few times, you know. The rest of us need to find a way to get back to as much of our normal lives as we can, including and especially, with working and driving the economy forward.

To some of the so-called experts and government officials: Please stop making things worse by pretending that you know what is best for the rest of us. Your actions in stepping on our individual liberty will not soon be forgiven or forgotten.

RETURN

Flatten the Curve? ...Sure, They Flattened the Curve, but on My Savings Yields! ...Now What?

Are we savers having fun yet? As part of the government response to the COVID19 pandemic, the Federal Reserve blasted both barrels back in March, with unprecedented amounts of monetary easing. Headlining their actions was a cut to their benchmark Fed Funds Rate (the rate at which commercial banks borrow from each others' excess reserves for overnight loans) to a range of 0% to 0.25%. This was the same range that was implemented back during the Great Financial Crisis.

Along with this action, large amounts of quantitative easing began, in which the Fed buys bonds and pays for them with the electronic equivalent of "money printing". This artificial increase in the demand for those bonds has the impact of increasing their price. In turn, this decreases their yield to maturity.

In short order, the curve was flattened. But not the COVID19 confirmed case curve. Instead, the term structure of interest rates, commonly referred to as the yield curve, was pushed down and made much more flat.

Almost immediately, bank deposit and money market fund yields dropped precipitously.

At the present time, it is likely that you are seeing money market mutual funds yielding about 0.01%, with interest bearing checking accounts and many large bank savings accounts paying about the same.

One of our favorite savings vehicles, a "high yielding" online savings account, no longer appears to be so high and mighty. We recently saw annual yields of about 0.60%.

Bank certificates of deposit (CDs) can be purchased with various maturities, such as six months, one year, two years and five years. Putting together a "ladder" of such CDs used to be a useful tool for your savings. Currently though, a one year CD generates under 1% in annual interest.

So what is to be done?

First of all, we should define that savings is very different from investments. We do not expect market fluctuations in the value of your principal. But what we get in terms of the stability of "nominal" principal value, we still have inflation risk due to a usually low rate of return. This should not be surprising. Putting money into something with the expectation of no market risk should mean that you also expect very little in return on your money, but with great assurance of the return of your money.

The ***CastlingFP*** view of savings adds the following concept. We define your Savings Portfolio (which is one of the big four portfolios: Core, Income, Longevity and Savings) as consisting of both "liquid" savings (i.e. convertible to cash in hand quickly and with little or no risk to principal) and home equity.

In previous articles, we covered our view of how your primary residence is not really an investment, but is a form of savings. So we will not repeat that discussion here (please let us know if you would like a copy of that one).

Your emergency fund should always be sourced from your liquid savings.

But another use of savings is to "cushion" against falls in your core investment portfolio. This may allow you to take part of your distribution for living expenses from savings temporarily, to allow the core portfolio time to recoup its losses. Then when the core investment portfolio has a great year, perhaps we can replace those funds taken from the savings portfolio. The main thing is that the savings portfolio is always at the ready. The difference between core investment and savings and the concept in using both at the same time, is an example of our ***Castling Principle***.

Home equity can be accessed through either a Home Equity Line of Credit (HELOC) or a Home Equity Conversion Mortgage (HECM aka reverse mortgage). But in the other direction, building up home equity is the same, in our view, as building up savings. The market value of your home will fluctuate and you should not purchase more than you can afford. You need to treat real estate as a very long term asset. Given all of these things, home equity builds up and a large portion of it will become very usable in your future.

Our review of these concepts is presented here to set the stage for us looking at the current low level of interest rates and savings yields in a slightly different way.

In 2020 and over the next several years of a post pandemic, but slow growth economy, interest rates are likely to be repressed. Acting as though nothing has happened would be more suitable for your investment portfolios. But your savings portfolio and your credit usage need special attention.

Here is what we mean. A recent report caught our attention, stating that banks collected over $10 billion in major fees from customers in the first three months of the pandemic. This included charges for insufficient funds and also for overdrafts[10]. Add to this the fact that if checking or savings accounts are earning any interest at all, it may well be limited to the aforementioned 0.01%, or thereabouts.

Add to this any potential monthly account maintenance fees, high minimum balance requirements to avoid fees and sky high credit card interest rates when borrowing money. The result? Cash may be leaving your accounts faster than the interest being generated is being pumped back in. So we have a few tips here.

Please remember that saving a dollar is worth more than earning a dollar. And saving a dollar does not add to your savings rate of return, but it does add to your wealth.

Secondly, might you be taking better advantage of this low interest rate environment? While we do not recommend that you take on more debt for the sake of a low rate, crises that lead to things like super low interest rates may be the right trigger for some folks to finally buy their first home or to refinance an existing loan to shorten its term.

We have assembled the following list of condensed action points and the circumstances that could warrant each action. Could you take advantage of one or more of these during these COVID19 times and improve your Savings Portfolio?

1. Are you paying any monthly account maintenance fees? Do you have multiple checking accounts? Consider consolidating them into one or fewer accounts, such that you will always meet the required minimum monthly balances. Also, seek out cheaper community banks and credit unions if your existing accounts have monthly fees.
2. Overdraft and related charges are symptomatic of not managing a checking account properly. We have previously shown how a simple spreadsheet with monthly tabs can offer a way to not only track spending, but forecast future cash flows and prevent upcoming problems. Some free online tools may also do this. The goal here should be to eliminate these fees entirely.
3. If your emergency fund is earning 0% to 0.01% interest, moving it to an online bank savings account could immediately bump up the yield to about 0.60%. While still well under 1%, think of how much more you will earn than in the existing accounts.
4. We do not recommend extending CDs out to five years, which would offer barely above 1.0% to 1.5%. If you have an existing mortgage loan with even a low 3% interest rate, <u>prepaying on a monthly basis will save you that 3%, since you will not be paying that interest on the principal prepaid</u>. However, you should still maintain an emergency fund during your working years, composed of three to six months of after tax expenses, held in liquid savings.
5. Let's say you are several years into a 15 year mortgage loan, which itself was a refinance some years ago. Another refinance may seem to be out of the question, due to the closing costs involved, correct? Maybe or maybe not. You should not be lengthening the overall loan term by doing the refinance. But consider a 10

year loan with low closing costs. One example of this is a $295 closing cost loan offered by **Third Federal Savings and Loan**[11].

6. Paying several thousand dollars in closing costs on a mortgage loan means that you are paying to buy down the interest rate. This is truly useful only if you hold on to the loan for the entire term. The APR given is then considered accurate. If you prepay on such a loan, you are actually increasing the APR and potentially defeating the purpose of the refinance.
7. The low cost refinance mortgage loan can be combined with a prepayment schedule to "supercharge" your savings. That 10 year loan may be paid off in only 8 years, perhaps. The value of a paid off home to your savings is that it gives you tremendous flexibility. Perhaps you downsize in retirement and have extra cash to add to liquid savings. Or you get a HELOC or HECM to enable home equity to act as a cushion for your investments.
8. Having a paid off home with a HELOC as the first and only lien will also enable access to funds even during recessions and financial unstable times. Frozen HELOCs were common only because they were in a second lien position.
9. Looking to buy a home in the next few years? Could low interest rates be the trigger to make this happen, assuming you have enough of a down payment? Our usual advice is to focus on selecting a home that you can afford, even if this is not your "dream home". Current inventory of real estate is low and prices seem high. But some sellers are motivated and a few properties can be purchased for prices that still are rational and may fit your budget. Then building up your equity through monthly payments will be building up your savings portfolio.
10. Low savings yields have not translated into low credit card interest rates. There is now even less justification for not paying off your credit card bill in full each month (unless you keep only 0% APR balances until the promotion expires). Use tools to budget, track expenses and delay some discretionary spending, in that case. Not paying an 18% credit card interest rate by paying off your bill in full, is like finding a gold mine for cash which is otherwise earning 0.01%.

RETURN

Introduction to Self-Directed IRAs: What, Where, Why and How?

This is the first article we present on the topic of self-directed IRAs (SD-IRA) and serves as its most basic introduction. However, we will depart from the conventional points of view expressed by promoters who benefit from an SD-IRA account being opened and assets being transferred into it, or detractors who lose assets under management (AUM) because of it.

CastlingFP has direct experience with many types of individual retirement accounts, including self directed IRAs. There are lessons to be learned here and experience is a great, if sometimes rough, teacher.

What is a Self Directed IRA?

First of all, an individual retirement account (formally called an individual retirement arrangement) is held by a trustee or custodian formally given permission by the IRS, to act as record keeper and to keep custody of assets for a special account designated for an individual person's retirement. IRAs were authorized by the Employee Retirement Income Security Act of 1974 (ERISA)[12]. Earned income from employment or self employment could be placed into an IRA account and be sheltered from income taxes on the gain and perhaps even get an income tax deduction on the contribution amount. Roth IRAs do not get any tax deduction on the contribution, but allow for tax free withdrawals as long as they are qualified. As soon as Roth IRAs were introduced, the older type of IRA was instantly labeled as “Traditional”. At least they didn't call it “classic”.

The term self-directed IRA is very misleading. Many people in the financial services industry do not even know what it is. Go into the branch of a major bank and ask about opening up an SD-IRA. “Oh, sure. Please sit right down and I'll get the paperwork to open a self-directed IRA brokerage account for you”.

Yes, you can open a brokerage account IRA, transfer assets into it and then spend forty hours a week analyzing which stocks to buy and which call options to sell.

But this would not be an SD-IRA, according to that portion of the financial services industry that markets these specialized accounts. Technically, we beg to differ. Any account in which YOU can easily direct the purchase and sale of those assets you would like to hold in your retirement account, could rightfully be called “self directed”.

An SD-IRA is not only about being able to direct the purchase and sale of assets in your retirement account. So here is the important distinction to keep in mind. An SD-IRA is truly identified by the characteristic of being able to hold both financial and non-financial assets, although the emphasis is clearly on the non-financial (also called "alternative assets") category.

Financial asset types include bank deposit accounts, CDs, money market accounts, mutual funds, exchange traded funds (ETFs) and other exchange traded products (ETPs), stocks, bonds, option contracts, real estate investment trusts (securitized real estate aka REITs), fixed and variable annuity contracts and some others. We can roughly group these into the categories of bank deposits, annuities or securities (stocks, bonds, funds).

The IRS also allows some other types of assets to be held in IRAs. These include the direct ownership of real estate, precious metals (coins and bullion for their metal content only), promissory notes, mortgage notes, real estate tax lien certificates, crypto currencies and ownership of certain types of legal entities such as limited liability companies (LLCs) (but not others, such as sub-chapter "S" corporations). While there are other assets allowed, this is meant to give you a representative sample.

Let's eliminate several asset types which you are expressly prohibited from owning in an IRA. These include life insurance and collectibles such as numismatic coins, stamps, wine, art, or a private business which you already own or are actively involved with.

So an SD-IRA does not get a special label from the IRS. It simply needs to satisfy all of the preexisting IRA rules.

Chief among these rules which we will cover here is the prohibition on self-dealing and in transacting with a disqualified party. An easy way to think about this is to begin thinking of yourself and your IRA as two separate entities. You cannot loan money to an IRA or borrow money from an IRA. The IRA is meant to fund your retirement and you are putting this money aside in order to receive special tax treatment by the IRS.

But putting this money aside results in strict rules regarding custody. An IRS approved custodian must be involved to set up and administer an IRA account. Record keeping requirements must be adhered to. So while you can have physical gold coins in your IRA, you simply cannot hold custody of those coins in your safe deposit box (or even your sock drawer) and still call it your IRA.

While you can loan money in the form of a promissory note or mortgage note from your IRA, there are disqualified party rules that must be adhered to: You as IRA account holder, your spouse, your children, your parents. In fact, persons from all lineal relationships (and their spouses) are disqualified. Interestingly, siblings are not disqualified. Please refer to IRS Publication 590 for more information on IRA rules[13].

Where do we find a Self Directed IRA?

So now that we know what an SD-IRA is, where could we go to get one? The answer may not be as easy as you first think. Given the potential universe of alternative assets that could be placed into such an IRA and the various IRS prohibitions on the types of assets, disqualified persons and prohibited transactions (such as self dealing), we run into the first roadblock.

Virtually no standard custodian, such as a bank, brokerage house, insurance company or mutual fund firm wants anything to do with an SD-IRA.

This is easy to see now that we have touched upon the IRS rules regarding prohibited: parties, assets and transactions. For a broker/dealer, their business is set up to provide custody for financial assets traded on an exchange, for which you as account owner are comfortably distant from messing up.

There are a number of much smaller custodians who do specialize in SD-IRAs. Two of the best known are **Equity Trust Company**[14] and **The Entrust Group**[15].

You may be in the habit of wanting to look up unfamiliar names using some review Website or the **BBB**. This would be an interesting exercise that we encourage you to do[16]. If you read through customer reviews, you will see that there are a lot of unhappy investors. In fact, we think that some of the five star reviews were simply placed in sympathy after a lot of the one star ratings were added.

The source of the problems appear to be either high fees or poor/slow customer service.

As we mentioned, the custodian and record keeping functions are the main activities occurring. If you buy an alternative asset such as investment real estate with your IRA, YOU are not buying that house. Your IRA is. If that seems kind of odd for you to understand, just wait until your attorney, or especially the title company or the seller, hears about who the buyer actually is. You cannot simply list your name anywhere on legal documents. Instead, it may look something like the following:

XYZ Fiduciary Trust Company FBO John H. Doe IRA #99-9999

FBO refers to: For Benefit Of. Attorneys and representatives at title companies may have never worked on such an IRA transaction. As the IRA account owner, you will be required to communicate with the custodian to get documents ready which they will need to sign off on and to disburse funds on time. A very frequent complaint is that this process is very slow, time consuming and fraught with error. Sometimes these complaints are perfectly justified and at other times, the IRA account holder has simply gotten in over their head and is not able to deal with the complexity of working with so many parties, especially the remote custodian.

How can we use a Self Directed IRA and avoid most of these problems?

Most of the problems we see with an SD-IRA stem from the client expecting the transaction documentation workflow, depending upon the asset being bought or sold, to be smooth and quick. One solution is to treat the custodian as more of a record keeper for the IRS, but not at the individual transaction level.

This puts the IRA account holder in ultimate control. But with ultimate control comes ultimate responsibility. In the SD-IRA world, this is referred to as "checkbook control".

<u>Checkbook control is realized when an appropriate legal entity is set up first</u>. This is most often a limited liability company (LLC), which is organized at the state level. The <u>LLC becomes the single asset "held" by the SD-IRA custodian</u>.

This accomplishes two things. First, the IRA account owner is able to sign off on transactions as the manager of the LLC (let's call it **Doe Rey Mee My IRA, LLC**) using:

John H. Doe, Manager

The actual buyer/seller of the asset becomes the LLC and not the SD-IRA and certainly not the IRA owner.

The second major accomplishment is that for custodians who charge transaction or asset fees, there will now be only one such fee (though it probably will be recurring) because only a single asset is owned by the SD-IRA.

To clarify, please review this structure:

John H. Doe
owns
XYZ Fiduciary Trust Company FBO John H. Doe IRA #99-9999
which owns as its sole asset, the private placement
Doe Rey Mee My IRA, LLC
which then can open bank accounts, brokerage accounts, purchase real estate, etc.

The general requirements of setting up an LLC must still be followed and are done at the state level. An attorney familiar with this process should be consulted. The Secretary of

State's office will normally have a form that is called the **Articles of Organization**. An attorney will usually have a template document for the **Operating Agreement** of the LLC for that State. The documents are filed with the Secretary of State, who will issue some sort of file number or identifier. Of course, some filing fees are involved and there may be annual reporting requirements. These documents will then also get filed with the SD-IRA custodian. This will effectively be the extent of their "custody".

While the SD-IRA custodian will accept an incoming transfer from another IRA or 401(k), etc, they will then have a process by which funds can be transferred into the LLC. This effectively "purchases" the private placement asset (the LLC), into the SD-IRA. Each such purchase or sale has a transaction fee. Minimizing such fees makes sense. Once the LLC is funded and running, it can then act as buyer/seller of investments.

Attorneys and title companies understand it when an LLC is buyer or seller of real estate more readily then when an IRA is involved. From the standpoint of third parties, you are the one controlling the LLC and they see the LLC as the one buying or selling the asset.

If the SD-IRA custodian charges fees based upon the number of assets in the account, having a single LLC as the sole private placement asset is most desirable, because fees will be minimized. <u>Since the custodian will not be holding the cash, properties, or other assets directly, we would not recommend the situation where a custodian would like to charge you based upon the size of your account</u>.

The value of the SD-IRA is simply the sum total of the value of the individual assets that it holds. If the only asset is the LLC, then this is simple. The LLC may hold many assets and have a large valuation. The custodian will be responsible to report this total value to the IRS annually. They will rely upon the account owner to fill out their own forms in a timely manner. There may be a need to get third party appraisals, as well.

While it may seem that the introduction of the LLC adds cost and complexity to the SD-IRA, it saves time and transaction fees in the long run. The custodian does not get involved in purchasing and selling investments, one of the main causes of complaints.

Why would we use a Self Directed IRA?

We saved the best for last. An SD-IRA should not be opened unless its purpose is thoughtfully determined first. Most custodians will steer clear of providing investment advice. But they will want you to open an account with them, just like a bank or broker/dealer will want to do the same. Here we cover the process of determining why you may want an SD-IRA.

Most of the time, the decision to open an SD-IRA is made because of a desire to diversify an investment portfolio beyond standard financial assets. We think that many people can have very well diversified portfolios without ever touching an SD-IRA. So an additional part of this decision should include the fact that the investor has some inherent interest in alternative assets, may have specialized knowledge in them, or already has some alternative investment in mind.

Red flags should be raised if an adviser or salesperson is the only one pushing the idea of specific alternative investments using an SD-IRA.

Virtually all reputable custodians and their representatives will not offer unsolicited investment advice. They exist to be the custodian and record keeper and not the adviser.

Probably the most common alternative investment vehicle for an SD-IRA is residential real estate, using a purchase, fix-up and flip approach. DIY investors need to keep in mind that having an SD-IRA or SD-IRA LLC purchase real estate does not give them permission to work on the rehab/remodel. Your labor applied to the property is considered a contribution that is a prohibited transaction. Think of it this way. You are the director of the SD-IRA and not the operations manager. You can spend 40 hours per week looking for a property to buy, without running afoul of the IRA rules. You can go through the purchase process and follow the rules. No problem. You can spend time leafing through magazines and catalogs finding the right kitchen, appliances, etc.

But once these decisions are made, you need to hand them off to the folks who will be implementing them, such as contractors and material vendors. You may well need a general contractor, depending upon how extensive the project is. Giving a kitchen idea to a contractor to realize for you, is perfectly fine. But if you are an architect and spend your time developing blueprints for the remodel, this would violate the rules.

Siblings and unrelated friends are not disqualified persons. So one interesting possibility involves two brothers or friends. Each does actual physical work on the other's property.

Valid expenses associated with the investment can be paid for from the SD-IRA LLC's checking account. The caution is that there must never be a prohibited transaction where an expense was made for a personal item or for personal use. This would be considered a prohibited distribution. If you analyze it, the only way for you to properly get money out of the investment would be to sell the property, take the proceeds back into the LLC and then move the funds up from the LLC and into the SD-IRA at the custodian level. Only the custodian can cut you a check that is considered a valid distribution and that you can spend personally.

If all of this sounds a bit too complicated, perhaps take this as useful information that convinces you not to go ahead with an SD-IRA. But just like learning how to ride a bicycle, it becomes a natural activity with time, while being rather difficult to describe how to do using just a few words.

There is a danger in appearing to diversify into real estate while the end result is actually over concentration. Buying a property and devoting $250K of a $1.25 million portfolio to this single investment is already 20%. This still seems reasonable to us. But if your portfolio is significantly smaller than that, then this allocation not only to real estate, but to this single property, would be exceedingly high.

Some investors use the SD-IRA to hold precious metals, especially coins. The caution here is that we do not know of any IRS ruling that would allow an investor to retain custody of the physical metal, while the assets are in the SD-IRA. This requires the custodian to take possession. Because of the overhead costs in buying, storing and selling gold and other precious metals, we recommend gold ETFs instead (which never require an SD-IRA).

Some investors buy real estate which is then rented. The rent is considered passive income and is allowed. The problem is that you are not able to supply the management and operational labor in getting the rental business working. This means paying for professional management and the underlying services. If this occurs, your return on investment may be so impaired, that the advantages of having it (versus outside of the SD-IRA) are lost.

Another area of investment that is real estate related is tax lien certificates. Counties issue these documents after "selling" the unpaid taxes on properties, based upon state law. There is a redemption period within which the property owner can repay interest and penalties, to clear the lien. If this is not done, the lien holder/investor can seek to foreclose based upon unpaid taxes. This is a rather complex subject that requires legal advice specific to the local jurisdiction.

Promissory notes, including private mortgages, are another alternative area. Knowledge of the value of the collateral (if any) and who the borrow is, are of paramount importance. We need to keep the IRA rules in mind regarding prohibited parties and prohibited transactions, as well as the prohibitions on self-dealing.

<u>A more complex, but potentially more powerful strategy, would be to have an SD-IRA hold an LLC that then invests in both alternative assets as well as retains a standard brokerage account</u>. Traditional investing can occur in an online brokerage account while waiting for infrequent opportunities to occur in real estate. This is sometimes the case

when we know the type of property we would like to buy, but finding the right transaction is difficult. Of course, care needs to be taken such that enough cash or securities are available to liquidate at good prices, when that "golden investment" is at last located.

Lastly, here are a few quick points to keep in mind regarding other problems that can occur with an SD-IRA:

1. Not understanding the investment: It bears repeating that you probably need to supply the spark by being interested in a certain alternative investment and not to be talked into one. While you are the director of the SD-IRA and not the operations person, investment selection is something you will need to want to do, perhaps guided by your adviser. We would recommend staying away from an SD-IRA if you intend not to be engaged in investment selection.
2. <u>The "operational" team you work with may have different incentives from your own goal of maximizing your SD-IRA's value</u>. For instance, a general contractor may have a lot of control over a project, since you are not legally able to fill his role. Will he keep costs down or try to benefit his own business? Will a rental property manager make sure that tenants are properly vetted? Will a real estate agent get you the most value from your rehab project? Consider even an appraiser who is supposed to get you an accurate valuation so that you can report it back to your custodian annually, for any properties owned. If he or she thinks they are doing you a favor by inflating the value, this is untrue. The proof is not in the pudding, but in the eventual selling. It would be better to know early on when a project has run into difficulty and the market value we expected to receive will not be forthcoming, than to find out later on.
3. You can pay vendors with a check from your LLC or even with a debit card. However, you <u>cannot acquire a credit card</u>, since you would usually be jointly and severally liable with your LLC. This is self dealing and is prohibited. While you could get a mortgage loan on the property you purchase, it must be non-recourse financing, meaning that the bank could only seize the property but could not come after you personally. Remember, you are not and cannot be in business with your SD-IRA. It is a separate legal entity from you as a natural person.
4. There is a potential distribution issue when RMDs are required. You are probably not going to sell a fractional part of a property, to meet a 4% RMD requirement. However, you could take the RMD from other IRAs you own. As long as the total RMD amount is taken, it can be taken from each IRA, a couple of them or even just one that is holding cash for this purpose. The alternative of deeding fractional amounts to yourself, as a distribution, is quite messy and to be avoided.

RETURN

Fairness and Feelings vs Facts and Logic: How a State of Illinois Proposed Amendment is Similar to a Bickering Family Failing in Their Finances

First, a disclaimer. We are not political in our writings, in our analysis and in our financial and investment advice. We encourage everyone to vote, but only if they feel inclined to do so. No pushing or prodding. We will not tell you whom you "should" vote for, or what issues you should support. The following represents a simple analysis of how one proposed state constitutional amendment (in Illinois) reminds us of a bickering family who is failing in handling their finances. We purposefully leave the story ending unfinished, just as it is with the finances of the State. But along the way, we demonstrate how some of the statements being publicly made are simply misleading and untrue. Facts and logic should win the day, but just as with our bickering family, feelings and "fairness" take center stage.

Our personal philosophy is: "Don't try to change someone. If you want to change someone, look in the mirror and change yourself!"

For our readers who live in the State of Illinois, it is highly likely that you have been bombarded with advertisements about the proposed constitutional amendment, which would implement graduated income tax rates, instead of the current single "flat tax" rate. For the specific wording being used, we encourage you to read the pamphlet which has been distributed by the Secretary of State's office and which we have provided a link[17].

We will only refer to the section of this pamphlet titled "Arguments in Favor of the Proposed Amendment", for all of our analysis, since this is the "official line". The arguments in favor section is two pages in length.

What catches our attention immediately is the repeated use of the word "fair" (or its derivatives, such as "unfairly"). It appears ten times in just these two pages. We seem to be bombarded with this word, which is apparently supposed to evoke an emotional appeal. It's all about feelings, is it not?

Well, two can play at that game. So we decided to "feel" a bit patriotic and consult our nation's founding documents: **The Declaration of Independence** and the **Constitution of the United States**[18]. Applying the same search for "fair" and its derivatives found exactly zero occurrences. By contrast, a search for the words "free" and "freedom" found eight occurrences.

Could those Founding Fathers have "unfairly" been focusing on "freedom"? Or, exactly what ever happened to facts and logic?

Documents need context and what precedes a document's development often sets up that context. Establishing a limited form of self government, apart from Great Britain, was a risky and monumental undertaking. Faulting its lack of perfection is about as useful and genuine as a piece of polished glass masquerading as a diamond.

The arguments in favor of the graduated tax amendment also mention the existing **State of Illinois Constitution** as requiring a flat (non graduated) tax rate, hence the need for it to be changed, even referencing the graduated income tax rates of the federal government.

This is where we need to bring up context again. Illinois did not even have a state income tax until the revised 1970 State of Illinois Constitution mandated it. While there are some interesting details and background to this story, we simply provide a link, in case you may be interested in reading further[19]. This income tax was implemented as a flat tax, even though it was known at that time that federal income tax rates were graduated and had been that way for a long time.

Somehow, the State of Illinois managed to survive for 150 years without having any income tax. But in the 50 years since its implementation, tinkering with the tax rates is still an ongoing exercise, while state worker pension liabilities have exploded and the state's credit rating has sunk to the lowest ranking among all states. Sounds a bit ironic, does it not?

Keep this in mind when we flip over to our hypothetical family and look at their their finances.

Back to facts and logic. Do we need graduated tax rates to insure “fairness”? Surprisingly, the answer is a resounding NO. Not at all. But to see why, perhaps we need to start with a couple fundamental questions.

Why does government exist?

Do we exist to serve the government (any government) or does the government exist to serve us?

If we can agree that some government is needed to provide essential protections and services, but that (as from our founding documents) our rights come from our Creator and not the government, the precedence order seems clear. We are not servants, but citizens. However, citizens must maintain some obligation to pay for that government which is required to provide those essential services and protections.

Of course, not everyone is able to pay the same amount or even the same percentage of their income. Some people barely scrape by, while others live in the lap of luxury.

So back to those founding documents. If we have certain inalienable rights of life, liberty and the pursuit of happiness, we would need to, first and foremost, survive. This is a practical consideration since there is always a cost of living.

A family needs to first clothe, feed, house and take care of themselves and their children. Federal government bean counters have long ago come up with a measure for this, called the **Federal Poverty Level** (FPL) and track it annually[20]. But since these numbers represent pure poverty, we suggest merely doubling them, to come up with a modest amount that we label "exempted income".

So based upon 200% of FPL and 2020 numbers, the amount for a family of four is $52,400. This would become the exemption amount for a married filing jointly tax return in the State of Illinois (in our example).

But what about a wealthy family? High earning families have already figured out how to "survive", have they not? By simply phasing out the exemption amount as income rises, it would be completely wiped out at some point. For purposes of this exercise, we chose the income figure of $250,000.

Here is our illustration of an alternative approach:

2020 FPL for Family of Four	$26,200
200% of FPL for Exemption	$52,400
Mr. and Ms. Working Stiffs:	
2019 Real Median HH Income	$68,703
"Rational" Amount Exempted	$52,400
"Rational" Taxable Income	$16,303
Illinois Income Tax @ 4.95%	$807
Effective Tax Rate on Income	**1.17%**
Mr. and Ms. Money Bags:	
"High Earner" HH Income	$250,000
"Rational" Amount Exempted	$0
"Rational" Taxable Income	$250,000
Illinois Income Tax @ 4.95%	$12,375
Effective Tax Rate on Income	**4.95%**
% Diff in Tax Rate with Median HH	***321%***

The difference between marginal income tax rate and effective tax rate is critical to understand. A marginal rate is simply the rate that applies to the next dollar of taxable income. An effective rate is the rate that applies to all of the income being considered. The most powerful argument against focusing on marginal tax rates, is that this does not consider how much income is actually being taxed at those higher rates.

If we all share in an obligation to fund a government that provides the essential services and protections we expect, it's not the marginal rates that fund the government. The total revenue collected through all forms of taxation is what actually funds a government.

Our example above shows a family of four earning the 2019 US median real household earnings amount, reduced by the 2020 200% FPL level for this size household. We call this difference a “rational” taxable income amount, since a modest cost of living has been extracted first. The resulting effective tax rate is 1.17%.

Let's compare this to another hypothetical household of four, which earns a hefty $250,000. Being able to produce higher income is logically associated with an ability to figure out how to survive. If this is not just plain common sense, we don't know what is. So the easiest notion is to simply phase out the exemption amount until it completely disappears. We are not saying that $250,000 is the magic number that will balance out a state's finances. We simply don't know, since we spend our time doing personal financial planning and not administering state funds. But let's suppose that this is the number used.

The high income family not only winds up paying more than ten times the total state income tax, but the effective rate at which they pay is 321% more than our lower income family. All of this is accomplished with simple state tax code modifications and without any state constitutional changes, nor with implementation of a graduated income tax.

Additionally, the low income family finds the calculation of their tax made easier, along with annual cost of living adjustments being built-in. The high income family also sees the computation of their tax simplified, perhaps to the extent that their CPAs and tax attorneys are the real losers in all of this. But guess what? The simpler the tax code, the more difficult it is to practice tax avoidance (as well as it's illegal step-child, tax evasion).

If there is any doubt about this last point, we provide snippets of an actual State of Illinois Form IL-1120 Corporate income tax return for 2019[21]. There are a variety of so-called “subtractions” from income, apparently for doing something favored by local politicians. Perhaps something circled here may be valid, but all of it complicates the tax code and leads to less revenue getting collected (states do not tax the interest earned on US Treasury bills, notes or bonds). Ultimately, corporate income is passed to individuals, for reporting on personal income tax returns.

Illinois Department of Revenue

2019 Form IL-1120

Corporation Income and Replacement Tax Return

See "When should I file?" in the Form IL-1120 instructions for a list of due dates.

If this return is not for calendar year 2019, enter your fiscal tax year here.	Enter the amount you are paying.
Tax year beginning ____ ____ 20____, ending ____ ____ 20____ (month, day, year; month, day, year) WARNING This form is for tax years ending on or after December 31, 2019, and before December 31, 2020. For all other situations, see instructions to determine the correct form to use.	$ ____________

Step 1: Identify your corporation

A Enter your complete legal business name.
If you have a name change, check this box. ☐
Name: ______________________

B Enter your mailing address.
Check this box if either of the following apply: ☐
- this is your **first return**, or
- you have an **address change**.

C/O: ______________________
Mailing address: ______________________
City: ____________ State: ______ ZIP: ______

N Enter your federal employer identification number (FEIN).
___ ___ - ___ ___ ___ ___ ___ ___ ___

O If you are a member of a group filing a federal consolidated return, enter the FEIN of the parent.
___ ___ - ___ ___ ___ ___ ___ ___ ___

P Enter your North American Industry Classification System (NAICS) Code. See instructions.
___ ___ ___ ___ ___ ___

Q Enter your corporate file (charter) number assigned to you by the Secretary of State.

• • •

Step 3: Figure your base income or loss

10	Interest income from U.S. Treasury and other exempt federal obligations.	10	.00		
11	River Edge Redevelopment Zone Dividend subtraction. **Attach** Schedule 1299-B.	11	.00		
12	River Edge Redevelopment Zone Interest subtraction. **Attach** Schedule 1299-B.	12	.00		
13	High Impact Business Dividend subtraction. **Attach** Schedule 1299-B.	13	.00		
14	High Impact Business Interest subtraction. **Attach** Schedule 1299-B.	14	.00		
15	Contribution subtraction. **Attach** Schedule 1299-B.	15	.00		
16	Contributions to certain job training projects. See instructions.	16	.00		
17	Foreign Dividend subtraction. **Attach** Schedule J. See instructions.	17	.00		
18	Illinois Special Depreciation subtraction. **Attach** Form IL-4562.	18	.00		
19	Related-Party Expenses subtraction. **Attach** Schedule 80/20.	19	.00		
20	Distributive share of subtractions. **Attach** Schedule(s) K-1-P or K-1-T.	20	.00		
21	Other subtractions. **Attach** Schedule M (for businesses).	21	.00		
22	Total subtractions. Add Lines 10 through 21.			22	.00
23	**Base income or loss.** Subtract Line 22 from Line 9.			23	.00

We are not arguing whether the current personal and corporate income tax rates in Illinois are too high or too low. We are simply showing that widely varying effective income tax rates can still result while using a single, flat tax rate. The arguments in favor of graduated tax rates do not hold up under scrutiny.

Finally, the arguments in favor section do not address anything substantive about the looming public sector pension crisis in the State. This is a glaring omission. In our opinion, this is like ignoring the 800 pound gorilla in the room. Compare this omission to the lack of focus on retirement savings shown by the father in the following story.

Let's introduce the Bickersons: Betty and Bill. They are both in their late 50s and married a year ago after having dated over the prior year. Each has saved very little for their eventual retirement. This is the second marriage for both of them. They each have one child from their prior marriages. Betty has a 25 year old daughter named Prudence. Bill has a 26 year old son named Biff.

Betty has not had an easy life. She lost her husband ten years ago, when he died in an automobile accident. He left behind a relatively small life insurance policy, which was the sole source of her financial security. She has worked hard during the past decade, trying to maintain the standard of living which she and Prudence were accustomed to while her first husband was alive. Prudence was able to go to college using the insurance death benefit proceeds and thus avoided taking on any student loan debt. However, her choice of schools was limited to in-state public universities.

Prudence was also interested in ballet and wanted to study dance in college, hoping to one day make this her dream career. After some late night talks with Betty, they both agreed that pursuing her dream was great, but that Prudence needed to be practical as well. This led her to declare a double major, with both Dance and Accounting (her roommate had chosen Accounting). She was very studious and applied herself in both disciplines. Unfortunately, an accident during a rehearsal at the start of her senior year, prematurely ended her budding dance career.

Prudence did graduate while completing both majors. She was able to easily find an accounting job with a mid sized company that wanted to expand their internal corporate income tax expertise. Prudence had an opportunity to have the firm pay for her to continue her education. This led her to enroll in a Masters in Tax program. She hopes to complete her masters and study for and attain her CPA designation before age 30.

She also volunteers some free time tutoring young girls aspiring to learn ballet at her older friend's dance studio. This fulfills part of her original dream. But she has also become interested in learning about the struggles of a small business person such as her friend. She thinks that her experience in corporate taxation would become very useful if she gets her CPA and wants to start or join a tax accounting firm that caters to the needs of small, entrepreneurial businesses.

Prudence recognized that her mother's life has been difficult for most of the past ten years. She asked for no special treatment, other than getting her college paid for. Upon graduation, she had a local job offer and enough money saved to make a deposit for a condominium unit rental in a very nice building. She also saved up enough in less than two years, to pay cash for a late model used sedan.

Her most important concern is that her mother find peace and security in her new life with Bill, especially when it comes to her mom preparing for retirement.

So what about Bill? He has a good job in business operations for a large, local company. He was divorced eight years ago, right when his son Biff was going off to college. Biff always spent his time off from school living with his father. His mother has had emotional problems and had Biff still been a minor at the time of the divorce, it would have been more than likely that Bill would have retained custody of him. Bill needed to give up a significant amount of assets to his first wife as a result of their divorce settlement, including part of his qualified retirement plan.

The divorce took its toll on Bill. He wanted to maintain the same standard of living and to show to Biff that nothing had really changed. While his first wife did not have a job, she did have a trust fund left by her parents, from which she spent freely. Oftentimes, there appeared to be a competition between both parents, for the affection of their son.

Biff, for his part, appeared to gravitate to his father, especially as emotional problems and alcoholism took its toll on his mother. Divorce seemed like the only option.

By the time Biff was planning to enroll for college, the trust fund was dry. Bill's lack of planning and the divorce left him with the sad news to inform his son: "*There is no money for you to go to the school of your choice. But don't worry, Biff! Just take out some loans and I will help you pay them off.*"

Biff intended to be a Political Science major at a prestigious private university. A few of his friends were majoring in engineering, computer science and finance at various local public colleges, spending far less and focusing on the specific skills they would attain. Not Biff. He wanted to get involved with various causes, thinking that networking with the right people would get him access to politicians with whom he agreed with.

Things did not exactly turn out the way he expected they would. He racked up about $150,000 in total debt, even with his father pitching in to help when he could.

His eventual employment become a classic case of “under employment”. His networking was not too successful and so he took a job assisting in a law office.

As a result, Bill took on the responsibility to make regular payments on Biff's student loans.

Biff has been used to a certain standard of living. He spends a large amount on rent for an apartment in an upscale building, which Bill also finds himself contributing to. Instead of this causing Biff to reexamine his spending, he found that he could still fund a certain lifestyle, including the lease on a large and impressive SUV, although he is usually seen driving completely alone.

Is Biff concerned that his father is having trouble preparing for his own eventual retirement? If he is, he certainly doesn't show it. In fact, Biff's recent escapade has been an on again/off again relationship with an exotic dancer, who has just given birth to his child. Now she is coming after him for child support.

Biff is thinking about if his life could get any worse. But once he informs Bill what has happened, it will be his father's life that will get worse. He is giving so much help to his son that he has decreased his 401(k) contribution to a pittance (not even collecting the full employer match any longer).

Betty is getting progressively agitated. Since marrying Bill, the economic security of the two living together has not materialized. Instead, she sees an increasing amount of her income going to fund common household expenses, while an increasing portion of Bill's income is directed to help his son Biff.

She knows that they are both behind on preparing for retirement. This issue comes up in their discussions and no progress is ever made. Bill focuses on the concept of “fairness”.

He feels that his divorce devastated his own finances, while Biff was “forced” to take on huge student loan debt in order to go to college. By comparison, he sees that the life insurance that Betty received after her husband's death was just enough for Prudence to have her college paid for and get her the start in life she needed.

Now if Biff could only get that same start in life, these things would be more “fair”, would they not?

Betty has also considered that Bill's emphasis on helping his adult son is almost like allowing him to cash in on his inheritance early. She expected to be able to leave something to Prudence after she dies, even though her daughter seems to be on a pathway to her own economic security. Sadly, Betty is also considering that if she split up with Bill, she may be better off because she would also be "divorcing Biff".

We do not offer an ending to this story any more than we can offer a conclusion to the State of Illinois financial saga that we discussed earlier. Do you see any parallels between the two?

In their classic book ***The Millionaire Next Door***, Thomas Stanley and William Danko originate the term "*Economic Outpatient Care*" or EOC as referring to substantial economic gifts some parents give their adult children[22]. This is not the same as recognizing your child's birthday and buying an age appropriate gift, commensurate with your budget and spending plan. It's really about taking over the responsibility that your child should have, to figure out how to deal with their own life's financial problems.

Here, Bill is completely neglecting the retirement security that he and Betty need to build up. He dwells on "fairness" for his son, fighting some imaginary battle with his ex spouse.

Bill also completely enables all the bad behavior that his son has been exhibiting. Why should Biff act differently, if Daddy is around to bail him out? Notice how the more that Bill gives in to Biff, the more Biff subsequently messes up.

Instead of getting a more useful degree from a less expensive school, Biff winds up mired in debt and chronically under employed. And now, his most recent escapade...

An adult child acting more like a child and now about to be providing child support for his new child, all funded by a surprised "Grandpa Bill". Oops! Bet he carefully explains all that to Betty and seeks some forgiveness? "Betty Won't!"

When we compare this story to the State of Illinois proposed tax amendment, we see a number of similarities:

1. The over emphasis on the concept of "fairness".
2. Ignoring the 800 pound gorilla in the room (public employer pension shortfalls and the over promising of pension benefits).
3. Maintaining that if the State of Illinois had a graduated income tax, this would be uniquely beneficial to middle income earners (We demonstrated above how an alternative could easily be implemented without the amendment, by using an

exemption amount based upon the cost of living. At that point, one tax rate could be set to whatever was needed to fund necessary programs and spending.)

4. Ignoring the fact that people vote with their wallet and feet, as well as in the voting booth (Illinois has seen a net exodus of people for many years. If high income earners simply move away due to taxes, these increased taxes will "progressively" move down to middle income workers.)
5. At what point do politicians lose their remaining credibility? "*This change won't affect me now, so why don't I vote for it?*" (The arguments in favor of the amendment do not specifically address the severity of the financial issues facing the State. This is an issue that will probably impact a larger number of people, eventually. So do we face our problems now or not?)

The people migration issue is equivalent to Betty picking up and leaving Bill. His remaining economic security then collapses when he realizes that he cannot continue to fund Biff's problems, while making a living for himself but now without Betty's income. His future financial security in retirement remains unaddressed.

Betty and Bill Bickerson would make for an interesting financial planning case study, as would state and local governments pretending that the problem is a lack of tax "fairness" and not their own decades long financial mismanagement.

RETURN

References

1. Great Barrington Declaration. Original Website with text of the document in multiple languages and the accompanying petition, are available via the following link:
https://gbdeclaration.org/
RETURN

2. Great Barrington Declaration, Wikipedia. The article is available via the following link:
https://en.wikipedia.org/wiki/Great_Barrington_Declaration
RETURN

3. Johns Hopkins University Coronavirus Resource Center. Website can be accessed via the following link:
https://coronavirus.jhu.edu/map.html
RETURN

4. Ibid.
RETURN

5. "Countries in the world by population (2020)", **Worldometer**. Website can be accessed via the following link:
https://www.worldometers.info/world-population/population-by-country/
RETURN

6. "Provisional Death Counts for Coronavirus Disease 2019 (COVID-19)", **CDC**. Website can be accessed via the following link:
https://www.cdc.gov/nchs/nvss/vsrr/covid_weekly/index.htm#AgeAndSex
RETURN

7. An example of a nursing home administration textbook found on Amazon, with content regarding emergency and disease preparedness. This is not meant as an endorsement of this volume, since we have no expertise in this field.
https://www.amazon.com/Nursing-Home-Federal-Requirements-Guidelines-ebook/dp/B015QN2F44/ref=sr_1_13?crid=3248CRT0XNCV6&dchild=1&keywords=nursing+home+administration+7th+edition+james+allen&qid=1604124025&sprefix=nursing+home+administr%2Caps%2C182&sr=8-13#reader_B015QN2F44
RETURN

8. "Real Median Household Income in the United States", **Federal Reserve Bank of St. Louis – Economic Research**. All of these data can be found on the Federal Reserve Website, by using the following link:
https://fred.stlouisfed.org/series/MEHOINUSA672N#0
RETURN

9. "Gross Domestic Product, Third Quarter 2020 (Advance Estimate)", **Bureau of Economic Analysis (BEA)**. All of these data can be found on the BEA Website, by using the following link:
https://www.bea.gov/news/2020/gross-domestic-product-third-quarter-2020-advance-estimate
RETURN

10. "Market Pulse", **Real Assets Adviser**, a publication of Institutional Real Estate, Inc., October, 2020, p. 13. The Website of the magazine can be accessed via the following link, although the content and free subscriptions may be limited to certain advisers:
https://irei.com/publications/real-assets-adviser
RETURN

11. Third Federal Savings and Loan. Their Website can be reached via the following link:
https://www.thirdfederal.com
RETURN

12. Peterson, Nora, **Retire Rich With Your Self-Directed IRA**, 2006, Atlantic Publishing Group, Inc., Ocala, Florida, pp.59-61. For an updated version of this book, please refer to the following listing on Amazon:
https://www.amazon.com/Retire-Rich-Your-Self-Directed-IRA-ebook/dp/B008UBRBH6/ref=sr_1_1?dchild=1&keywords=nora+peterson+IRA&link_code=qs&qid=1604030164&sourceid=Mozilla-search&sr=8-1&tag=mozilla-20
RETURN

13. IRS Publication 590-A: Contributions to Individual Retirement Arrangements. The PDF is directly available using the following link:
https://www.irs.gov/pub/irs-pdf/p590a.pdf
RETURN

14. Equity Trust Company. A custodian for self directed IRAs. Their Website can be reached via the following link:
https://www.trustetc.com
RETURN

15. The Entrust Group. A custodian for self directed IRAs. Full Disclosure: the author has his own SD-IRA with this custodian. Their Website can be reached via the following link:
https://www.theentrustgroup.com
RETURN

16. Better Business Bureau Website links for both SD-IRA custodians mentioned in the article are shown below. Please see the *Customer Reviews* section for some eye opening discussions which we use to support our point of view in this article. This is not meant to criticize these companies, but merely demonstrate the way in which these SD-IRAs are being used.
Equity Trust Company:
https://www.bbb.org/us/oh/cleveland/profile/trust-company/equity-trust-company-0312-21687
The Entrust Group:
https://www.bbb.org/us/ca/oakland/profile/financial-services/the-entrust-group-1116-62729
RETURN

17. Pamphlet on the proposed amendment may be found on the **Illinois Secretary of State** Website, by using the following link:
https://www.cyberdriveillinois.com/publications/con_amend/ca_english.pdf
RETURN

18. Declaration of Independence and Constitution of the USA (including amendments). Total occurrences of the words "fair" or "fairness" or "unfair" or "unfairly": zero. Total occurrences of the words "free" or "freedom": eight. The full text can be found and downloaded by using the following link:
https://www.uscis.gov/sites/default/files/document/guides/M-654.pdf
RETURN

19. VanMetre, Benjamin, "Illinois has a Dirty Little Secret Buried in its Tax History", **Illinois Policy Institute**, January 2, 2014. This article can be found on their Website using the following link:
https://www.illinoispolicy.org/illinois-has-a-dirty-little-secret-buried-in-its-tax-history
RETURN

20. "HHS Poverty Guidelines for 2020", **ASPE (Office of The Assistant Secretary for Planning and Evaluation), U.S. Department of Health and Human Services**. All of these data can be found on their Website, by using the following link:
https://aspe.hhs.gov/poverty-guidelines

RETURN

21. "Tax Forms", **Illinois Department of Revenue**. Various tax forms can be downloaded via their Website by using the following link:
https://www2.illinois.gov/rev/forms/Pages/default.aspx
RETURN

22. Thomas J. Stanley and William D. Danko, **The Millionaire Next Door**, Longstreet Press, Inc., Atlanta, Georgia. 1996. p.142. An updated version to this classic can be found on Amazon via the following link:
https://www.amazon.com/Millionaire-Next-Door-Surprising-Americas/dp/1589795474/ref=sr_1_1?dchild=1&keywords=The+Millionaire+Next+Door&link_code=qs&qid=1604275668&sourceid=Mozilla-search&sr=8-1&tag=mozilla-20
RETURN

How to Contact Us

*Have a comment, suggestion, criticism or just plain feedback? We would like to hear from you. Please contact us by email, post, telephone or our **Facebook** page, as shown below.*

***Castling Financial Planning, Ltd.** was created as a unique, <u>hourly, fee-only</u>, non-product selling and non-AUM investment adviser and financial planning firm, that is <u>still very affordable for middle America</u>. We do not engage in conflicts of interest (and prove it), never set asset minimums and welcome all clients. Less than 1% of all financial advisers are both hourly and affordable for middle America.*

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 2020 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.

Registered Investment Adviser Principal:
Henry F. Glodny,
CRPS®, MBA, MS
Candidate for CFP® Certification as of November, 2016
Principal
Chartered Retirement Plans Specialist(SM)

Mailing Address and Office Location (Hours by Appointment Only):
Castling Financial Planning, Ltd.
1337 Hunters Ridge East
Hoffman Estates, IL 60192

Telephone:
224.353.8567 (Office)
847.284.6647 (Mobile)
Email:
henry@YourIndependentAdviser.com
Facebook:
http://www.facebook.com/CastlingFP
Twitter:
@CastlingFP

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

(If this page has moved or changed, go to the SEC home page at: http://www.sec.gov/ and follow the links for information on Advisers.)

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

Click on the Start Search button.

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.

Disclosures and Disclaimer

All investments involve risk, including risk of loss of principal.

The information provided in this report has been furnished completely free of charge and obligation, for educational purposes only. Information contained within this report should not be construed to constitute investment advice for any particular individual or group.

All calculations, analysis and assumptions used in this publication are the sole responsibility of Castling Financial Planning, Ltd. and were developed with great care. All background information used to create this report is believed to come from sources that are reliable. No warranty, whether express or implied, is given to any reader or user of this report. Castling Financial Planning, Ltd. expressly disclaims any liability resulting from the use of information contained within this publication, including incidental or consequential damages arising from the use of this publication.

Castling Financial Planning, Ltd. does not provide any investment or financial advice without performing analysis of a client's situation and goals. Anything less is, at best, a sales presentation.

Castling Financial Planning, Ltd. is an hourly, fee-only financial planning practice and investment adviser, registered in the State of Illinois.

Castling Financial Planning, Ltd. operates elsewhere, where permitted by state law, based upon the National Di Minimus provision to the Investment Advisers Act of 1940.

Castling Financial Planning, Ltd. believes strongly in the concept of independent, fact based advice, which is not tainted by conflicts of interest. As a result, we do not sell any financial products, nor seek affiliations with any broker/dealers or other financial product providers.

Castling Financial Planning, Ltd. is not in the business of providing legal or tax advice. Please consult with your attorney or qualified tax professional, for legal and tax advice specific to your personal situation.

Castling Financial Planning, Ltd. is not responsible for events beyond its control, such as wars, strikes, natural disasters, terrorist acts and market fluctuations.

This disclaimer does not seek to waive, limit or minimize any rights a client may have under applicable state or federal laws.