

"The clearest and best book out there
to get you on the path to riches. This one's special!"

—James J. Cramer, host of CNBC's *Mad Money*

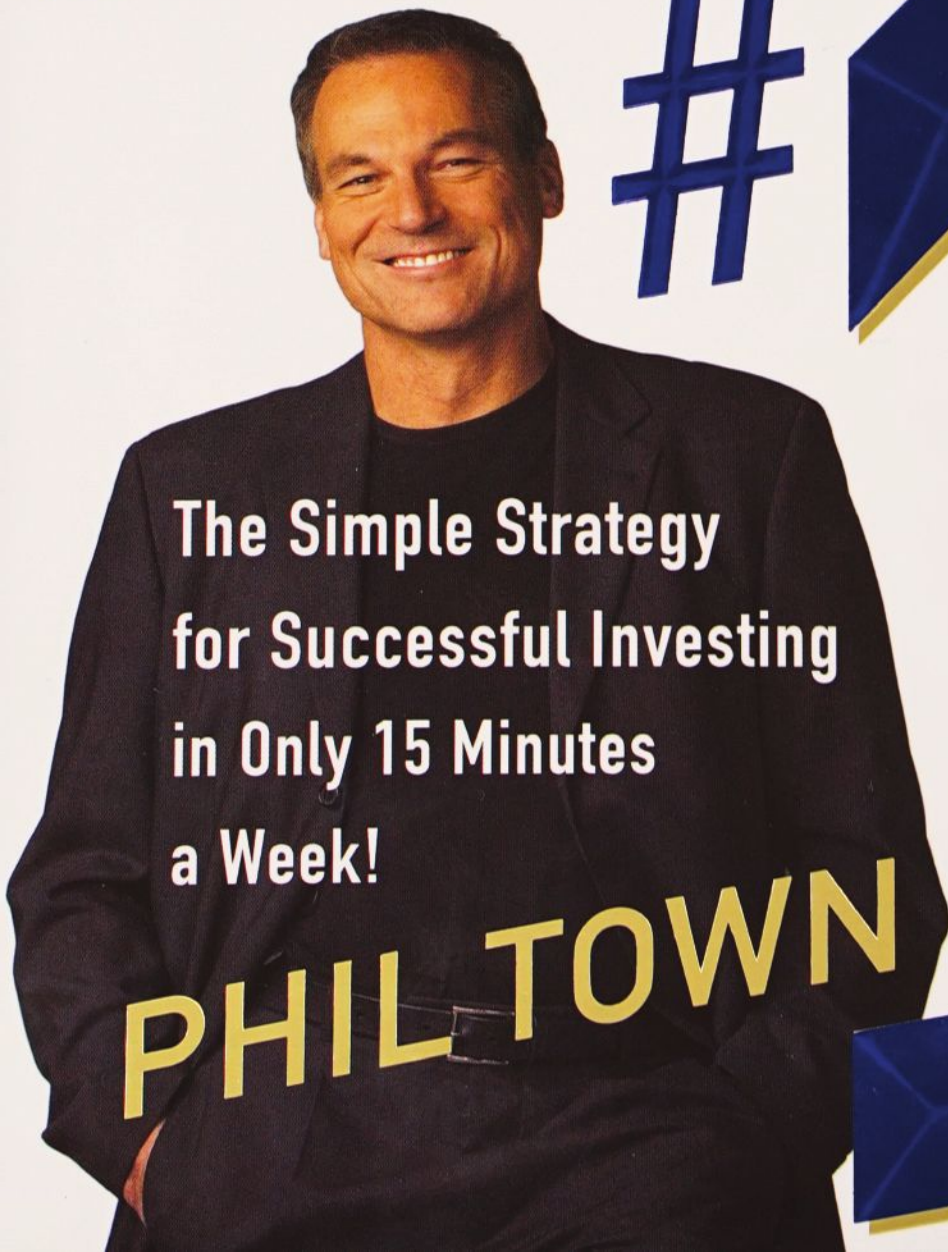
RULE

#

1

The Simple Strategy
for Successful Investing
in Only 15 Minutes
a Week!

PHIL TOWN



Debt, Taxes, & Retirement

Money is better than poverty, if only for financial reasons.
—WOODY ALLEN (1935)

GET RID OF BAD DEBT

The first barrier to success is bad debt. Yes, there's good debt and bad debt. Good debt is money you borrow at a low interest rate, with which you make a high rate of return. This idea goes by the name of OPM (other people's money) or leverage. An obvious example is the money you borrow to buy an apartment complex. The debt is covered by the rental income—or it will be in a few years.

Bad debt, by contrast, is consumer debt—money you borrow at a high interest rate to buy things that don't produce income or grow in value. Things like cars, refrigerators, clothing, and trips to Europe. All of us have done it, and all of us have paid the price.

The price of bad debt is the impact of compounding rates of return working against you instead of for you. If you have credit cards or bank loans costing you 18% or more a year, that's 18% compounding against your retirement. Since Rule #1 is all about not losing money, the first thing most of us must do to become successful Rule #1 investors is to pay off bad debt.

Think about it: If our target rate of return for The Rule is 15% and we have credit card debt we're paying 18% on, essentially that means we're borrowing money at 18% and making only 15% on it.

Even though we're doing well as a Rule #1 investor, we're going backwards at the rate of 3% compounded per year. That's a heck of a barrier to successful investing. The only way you'll get rich that way is to hit the lottery. Otherwise, you're going broke with great certainty.

TAXES

If we could just buy and hold, there wouldn't be a tax issue. Unfortunately, we're not geniuses enough to know the stock can't go lower, and Mr. Market is far too irrational to be trusted. So we use specific tools to get in and out with the big guys (the big, bad, fund managers), and avoid the danger of holding in a market that can crash. Great. Except now the Feds can tax us.

As much as possible, it's our duty as good citizens who intend to take care of ourselves in our wobbly old age to avoid paying taxes whenever it's possible to legally do so. In fact, our government has seen fit to provide us with a vast array of tax loopholes we can use to defer taxes. These loopholes are called SIMPLE IRAs, Roth IRAs, SEP IRAs, 401ks, and Defined Benefit Plans (among others). We can even set up a trust that will defer taxes for us.

Now, since I'm a former river guide and not a tax attorney or CPA, I'm not going to advise you on how to set up these plans. I will tell you I'm not a huge fan of company 401k programs because most of them force you to invest in mutual funds. The only time a 401k is better than an IRA is when the company you work for is matching at least 50% of the funds you put in there. In that case, take the free money, but put in only the amount they're going to match.

Beyond that point, open up an IRA and max it out, because you can do Rule #1 investing in an IRA that's self-directed. Roth IRAs are tax-free forever! You put the money in after you pay tax on it, and it grows inside the Roth IRA tax-free. Then when you retire and take it out, you never have to pay tax on the gains. I like that one. That's the one my kids have, because they're in a very low tax bracket and will be for some time, so it makes a lot of sense to jam as much into a Roth as they can after tax, and then never pay tax on the gains.

Beyond that point, open up an IRA and max it out, because you can do Rule #1 investing in an IRA that's self-directed. Roth IRAs are tax-free forever! You put the money in after you pay tax on it, and it grows inside the Roth IRA tax-free. Then when you retire and take it out, you never have to pay tax on the gains. I like that one. That's the one my kids have, because they're in a very low tax bracket and will be for some time, so it makes a lot of sense to jam as much into a Roth as they can after tax, and then never pay tax on the gains.

Any online brokerage can tell you over the phone how to set one of these up. It's easy and takes about five minutes. They can also show you how to roll over a 401k that's no longer being matched by your employer.

The key thing is to get the money into a tax-deferred or tax-free account. Obviously, not all of the money all of us are able to invest is in a tax-free account. Some of us have more money to invest than Uncle Sam lets us put away in a retirement account.

Let me summarize my feelings about taking your profit versus leaving it in stocks in the business for the long term to avoid short-term taxes. You can do the math and convince yourself that staying in for the long term is clearly the better choice, but I don't stay in. The reason I don't is that a stock market that's been overpriced for as long as this one may be in for a serious crash sometime. It doesn't have to happen, because the past does not necessarily predict the future, but it certainly can happen, and if it does and you're in for the long haul, the long haul just got very long indeed. If you ride a stock down from \$100 to \$20 in a serious market meltdown, that stock has to go up 400% just to break even.

Wouldn't it make more sense from a risk perspective to just pay the taxes and take your gains off the table every time the big guys start to get out? Up to you.

RETIREMENT

What's Your Number?

Your “Number” represents the amount of money you will need to enjoy the life you desire, especially in retirement. Let's look at four types of people and how they might approach their Number.

A Procrastinator has no sense of their Number, no plan for retirement and is in denial. A Plucker picks the Number out of thin air and has a plan based on a wild guess. The Plotter has a rationally determined Number, a defined plan to plod toward it, and no sense of what life is all about. The Prober has a Number and a plan determined by downsizing everything, and chants “I'm okay, you're okay” while watching Oprah.

Because of all the variables in these four types of people, it's tough to tell what “your” Number is, but I'm going to give it a shot: Let's take an average couple, mid-forties, who want to retire at sixty-five. They figure they had better plan to be around for a while in retirement. And they realize that it's going to take some money for two people to live comfortably for thirty years without an income and be able to handle the inevitable medical bills and eventually the nursing home.

They figure that they could live comfortably for the balance of their lives if they can spend \$50,000 a year after taxes. That doesn't seem like so much. Between the two of them they're making double that now. Of course they don't actually bring home \$100,000. They pay out about \$30,000 in taxes, between social security tax, federal income tax, and state income tax. So they are really living on \$6,000 a month after taxes today. These people have \$50,000 to invest. They intend to add \$10,000 a year to it for the next 20 years. Yes, they procrastinated.

And now they are guessing about the Number, while plodding dutifully toward it while reading The Secret. If they keep their money in mutual funds and the markets manage to do 8% average for the next twenty years, they might accumulate \$690,000 by the time they retire.

At age sixty-five, they will begin drawing down that amount while keeping it invested at 5% a year in bonds. They will spend \$50,000 a year and because of inflation they will run out of money in five years.

This is terrible news. So terrible that right now you're thinking it can't be true. That I've somehow played with the inflation rate to make it massively expensive to live in 2029. I haven't. I've assumed an average inflation rate of 4% per year. It's actually expected to be quite a lot higher than that by a number of professionals, so the situation could be much worse than this, but it's unlikely to be any better.

The alternative scenario is deflation ... and the depression that goes with it, in which case their dreams of putting away \$10,000 a year will go up in smoke. They'll be lucky to have enough left over after payday (if they have jobs) to cover the cost of living. Think 1934. Believe me, the inflationary scenario is prettier, even if it is rather grim.

So in 2029, the equivalent of \$109,000 a year will buy what \$50,000 buys today. Our hypothetical couple have \$690,000. Invested in a 5% bond, this amount is going to earn about \$25,000 after tax their first year in retirement. They'll have to supplement the bond income by withdrawing \$84,000 from their 401(k).

But wait. There's more.

The money they pull out of their 401(k) is also fully taxed. In order to have \$84,000 after tax, assuming a 25% tax rate overall, they'll have to pull out a total of \$112,000. Their \$690,000 goes down by \$112,000. That leaves \$578,000. They will do that again the next year and they will then be down to less than \$460,000. By the time they turn seventy they will have burned through the \$690,000 and be broke. Five years. If they win a nice lottery or have a rich old uncle and somehow get a million dollars in 2029, they'll last seven years.

Okay, so here's my best guess for your Number if you want to retire in 2029 on \$50,000 a year in today's dollars, plan to live to be ninety-five, and don't want to rely on anyone else: \$3,600,000. That's a lot. And that's why we need to start doing things correctly. The right way. The Rule #1 way.

Free Invitation to attend my 3-Day Transformational Investing Workshop

Look guys, retirement is a scary thing, but it doesn't have to be. If you start now with Rule #1 strategies, you'll be able to live out your dream of financial freedom with plenty of money. I'll show you how to do this at my live 3-Day Transformational Investing Workshop, which I teach (along with breakout sessions with some of my top coaches).

By the way, you have my word that there will be no selling at this event and no guest speakers either. It is 100% educational and 100% FREE. You can even bring a guest at no charge.

Because in the past I've charged up to \$5,000 for this event, I cannot continue to offer this for free, so take advantage while you still can.

You really have nothing to lose and a whole lot to gain. Find out more about this limited opportunity.



[Click Here To Sign Up To My Free Workshop!](#)