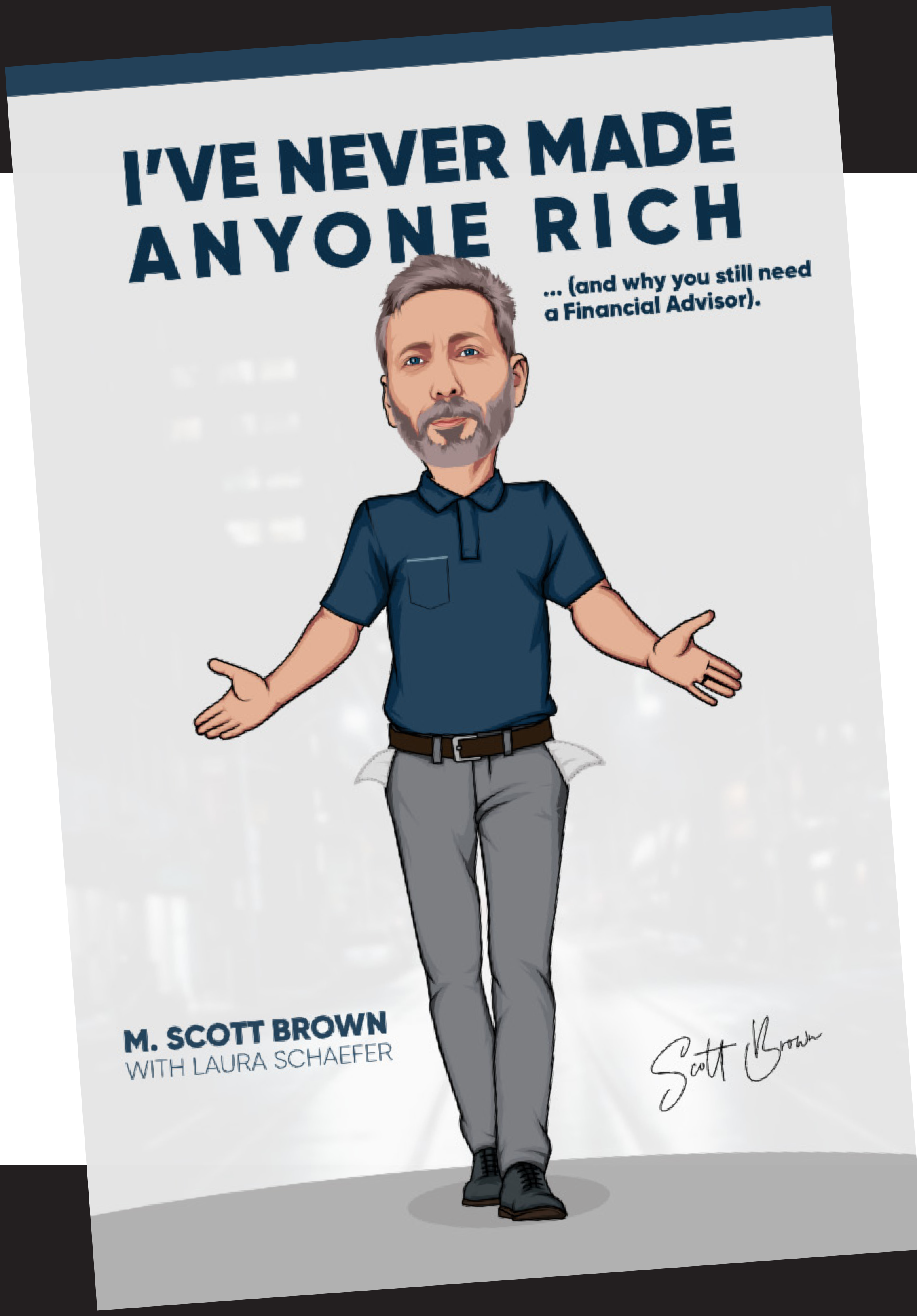
READ CHAPTER 1

"THE TRUTH ABOUT MONEY"



EDGEWATER
FAMILY WEALTH

Chapter 1

The Truth about Money

On your deathbed, you will receive total consciousness. So I got that goin' for me, which is nice. ~Carl Spackler

What is wealth?

How do I know that the "money," or, more correctly, the data or digits on my electronic bank statement, are really there? I mean, can I touch it? Can I go visit it on the weekend, kinda like a relative in jail? How do I know that when I write a check and invest my life savings, it's not going straight to an account in the Cayman Islands? How do I know when I send a check to a charity that some round fella in a white suit and a cowboy hat (think Boss Hog) isn't spending my money on cigars and imported BBQ sauce?

How indeed.

Life is just one big roll of the dice. The foundation of our economy and our financial system is 100% based on risk and trust. Our forefathers and mothers set out across the vast wilderness that is now interstates and Waffle Houses not really knowing what they would find. Sure, they knew a little and they "trusted" that what they didn't know, they could overcome.

Sometimes they were right; more often, they were buried along the way.

They *didn't* know. They didn't know what they would find, and they didn't know if they would even live to try to find whatever "it" was.

"Knowing," in my mind, is overrated. Classically defined, a "risk offset" is the difference between the risk you take and the skill you have. In short, me trying to box Mike Tyson is a huge and likely pointless risk to take when one considers my skill level. Conversely, me trying to make a nice veggie lasagna from a recipe is indeed a risk, but a smaller one. The risk is simply that I may end up at a pub for dinner (which, honestly, seems like a reward to me) if I don't successfully combine the ingredients.

Knowing is no fun and almost never profitable. We know that if we go to the bank and buy a Certificate of Deposit we will earn a really crummy rate of return. We *know* if we never leave the house it is unlikely that we will be run over by a bus or eaten by a tiger. We know that if we don't befriend someone they can never disappoint us or do us harm. These are things we know.

For my money and yours, knowing is a waste of time and generally unprofitable.

Now, for those of you who enjoy exaggeration, I am not saying you shouldn't investigate and measure the risk you are taking compared to what you know about the endeavor. Whether we are talking investments (and we *are* talking investments in this book, right?), travel or relationships, there is a level of risk offsetting we can do. Knowing a little more than the next guy is highly profitable. Learn as much as you can about the investment, travel destination, or individual. Then, at some point, you have no choice but to make a decision. Usually the decision boils down to one thing: trust. Do I trust the romantic interest, the travel agent, or financial person? Do I trust my instincts, my education, or my intuition?

The biggest mistake folks often make is not born of bad decisions.

It is almost always the result of no decision.

Money is Taboo and People are Intimidated

It's a huge problem, we don't even talk about it in school. I don't think you need to talk about money in the sense of, *I make this much*, or what you have or don't have. But knowing basics like *how does compound interest work*? Or, *how does the stock market work? Why is the Dow 25,000 and it used to be 2,000?*

Ninety-nine percent of the population doesn't even know why that happens. Nearly half of the country has nothing—zero dollars—invested in the market. These individuals have no money in pension funds, 401(k) retirement plans, IRAs, mutual funds or index funds, and it's not just due to a lack of money.1 One recent Bankrate survey revealed 25% of people avoid the market because they don't understand stocks, 11 percent say stocks are too risky, and 7 percent say they don't trust stock brokers or financial advisors.2

The conversation needs to start in public schools. The conspiracy side of me says there's a reason it doesn't happen. Our education system teaches people to be employees and consumers. For the people who sell stuff and need employees—which is most corporations—it's a wonderful feeding system.

Despite this somewhat depressing situation, resources are available for those who want to learn. They're just not in an easy-to-swallow pill form. It takes effort, like anything else. If we build those muscles early in school, in elementary school, in middle school, and in high school especially, that curiosity will carry over. Young people will have a foundation to build on.

[1] According to the Federal Reserve and numerous surveys by Gallup and Bankrate. http://www.chicagotribune.com/business/ct-americans dow-22000-investing-20170803-story.html Accessed December 26, 2017.
[2] http://www.businessinsider.com/why-so-few-millennials-invest-in-the-stock-market-2016-7 Accessed December 26, 2017.

The reason we don't have the discussion—about money—is people are *embarrassed* by the discussion. They don't know what to ask, which is also the reason people walk into a financial advisor's office and agree with whatever that advisor says. They're embarrassed to ask a question that might come across as stupid. Their reticence is making them vulnerable, because they are not asking the questions. The fear is what's blowing them up. If we're not all talking about what Wells Fargo did last year to piss everybody off—because we don't quite understand it—then Wells Fargo, in this example, has no reason to behave differently. They know most people don't have the intellectual resources to understand what they just did, so they simply pay the fine and get back to business as usual.

We have *made* money talk taboo. We have intentionally coded the industry and the business with jargon that nobody understands, and that, frankly, doesn't mean anything. The more jargon a person uses, the less likely it is they know what they're talking about. They want to confuse you so you don't ask questions.

The Dumb Stuff People Believe about Money

People believe they can save their way to wealth, and I don't mean save money. They believe they can negotiate or discount transactions to wealth. Meaning, if I spend six months shopping for a car rather than spending six months working a second job, I'll get rich. People have been conditioned to believe the former rather than the latter is the way to go. When, in fact, it's not even close.

Making money in the margins is how people get rich. They don't work a nine to five and get their three percent raise each year, and cut coupons to wealth. They work their nine to five, put their butts in an Uber and work at night, save that money, and start their business. *That's* how many people get wealthy.

The media has convinced people they should research their way to wealth, so they're saying to themselves, "If I just find the right stock or the right formula, or the right mutual fund and insurance product, that will solve all my problems." Lean in for a second...BULLSHIT!

NOPE. And it just never ends.

People believe money is finite. They believe that if another person has a lot, they themselves can't have more because the other person already has it. Incorrect.

They believe that when they enter a transaction with somebody, especially in this day and age (the mindset I'm talking about seems to be getting worse and worse), that they have to get the better of that person. If they don't win and win big, they haven't won at all.

As recently as 30 years ago when I started in the business, two people could sit across from one another at a table, and when a transaction was about to occur, the feeling would be *I want to win and I want you to win. Because I know if you don't win, it's not a good transaction for either one of us. You'll be angry, and there are repercussions to that.*

People don't think this way anymore. When they go into a car dealership, their goal is for the car dealership to make no money. They want the dealership to possibly go out of business entirely when they drive off the lot. Now, that's never going to happen, but they want to go home and tell their buddies that they screwed over XYZ Dealership, and brag about how they had the salesman on his knees, and he ended up giving them four t-shirts, a bag of donuts, and the building. They want the ultimate win. In fact, that's not what they really want.

If somebody else isn't making money in the deal, they're not going to take care of you when it comes to service. If there's no profit in what that person is doing, they're not going to do it anymore. The fewer people who sell cars, the worse the pricing's going to be. Because eventually, there's only going to be one dealership, and they'll charge you whatever they want. It's simple economics...look into it. Then, be more careful about what you wish for.

The Randomness of Life, Weather, and Money

For the most part, my clients have been trained and see a lot of these issues the same way that I do. The national dialogue is what irritates me—the everyday conversations I have to endure when somebody finds out I'm a financial advisor. I've had enough of the unavoidable bullshit that I've had to pretend makes sense.

I don't even *like* money that much. I really don't. Ironically, I think I went into the right occupation given this stance, because I'm not *enamored* with money. Love of money doesn't cloud my conversations or my decisions. I grew up very lower middle class-ish, on a good day, and I always thought I wanted to be rich, whatever that meant—frankly, I didn't know what that meant. I wanted *things*. Yet when I acquired some comfort, and some *things*, for a little while that was satisfying, but largely over time, it wasn't. I see how people obsess about their money, and it's pointless. It's like obsessing about the weather. *I hope it doesn't rain!* They're wringing their hands. *And if it rains, it's going to be terrible! If it's a sunny day, I want to go outside, but how do I know it's not going to rain?*

On, and on, and on…

Accepting the randomness of life is so important, and that applies to money just as much as everything else.

The Value of Your Time: Is A Penny Saved A Penny Earned? Not Really

Let's address the 30-40% of you who are saying, "Financial advisor? I don't need no stinkin' financial advisor."

I get it.

I would actually say there is a group of folks who do not need and should never hire an advisor. Those people have both the ability and desire to keep track of their investments, dividends, income, tax reporting, legislative changes, beneficiaries, Required Minimum Distributions, contribution limits, stock research, bond inventories, Monte Carlo simulations, capital gains, proxy voting, inflation issues, Social Security calculations, trust funding, and, of course, Jim Cramer's outfit of the day.

There is just a hint of sarcasm in the preceding list, but I do sincerely concur that there are some folks who could and should do these things for themselves. I assure you, however, that the list of those folks is a lot shorter than the trading platforms advertised on TV would have you believe. In fact, I am constantly surprised at the folks who tell me they are going it alone. They are almost never individuals of means.

The reason wealthy people seek advisory relationships is not because they are, in fact, wealthy. Rather, it is because they value their time at a higher rate than those who choose to go it alone. What it all boils down to, simply, is time. What is yours worth?

If you have never read the book *The E-Myth*, I highly recommend it. *The E-Myth*, written by Michael Gerber back in 1988, changed my life and ultimately the way I approach business.

Most people spend an inordinate amount of time trying to save money, not realizing the actual cost of underutilizing that time. HUH? I will cite a good friend of mine as an example. My friend takes great pride in his car shopping skillz (spelled with a Z to show how cool he was in the 90s). He would spend literally a month going from dealership to dealership working his deal. Each week, I would estimate this guy spent nine or 10 hours traveling throughout his area "working over" the salesmen, pitting one against the other. Finally, after a month or so of plying his trade, he ended up working the deal of a lifetime and saving around $2,000 on his purchase.

At this point, you may be siding with our hero, "the slayer of car salesman." Not so fast, Huckleberry. A quick computation of our hero's time tells us he spent around 44 or so hours negotiating this deal. This, of course, does not account for time at home on the internet, nor the fifteen editions of *Consumers Digest* he read each night. In short, our friend has around 50 hours into this quest, which on the surface seems worth it. Or does it?

According to data from the Bureau of Labor Statistics, the median earnings for Americans aged 35-64 is roughly $50,000 per year.3 If you divide that figure by the approximately 2,000 working hours in a year, you get about a $25 dollar per hour cost of your time. Doing some quick math, this means our hero lost around $1,250.00 in time for a net savings of $750.00. Still not bad, you say?

Well, my friend would assert that not only did he net $750.00, but actually, he did this in his "free" time and therefore, it is still a net $2,000.00. Poppycock!

I don't know about you, but I value my free time at nearly twice the rate of my work time. In other words, time spent with my family and children is worth considerably more to me than time at work…AND I LOVE MY WORK!

Using this measure, our hero has spent nearly $2,500.00 of his time to find a net loss of $500.00. This story is not to diminish the savings of $750.00, $2,000.00, or any savings for that matter. *It is to make you stop and think before you bend over to pick up a penny while dollars fly over your head.*

The guy in my example makes considerably more than the average American, which actually causes him to suffer an even bigger loss when accounting for his time. Had he just haggled for a half hour at the first dealership, bought the car and gone back to work, he would have been considerably ahead. I myself realized long ago that changing my own oil, doing my own taxes, and giving up time with my kids was not an efficient use of my time or money.

Of course, you need to do these calculations for yourself and decide what makes mathematical sense. Your mileage may vary.

Scarcity vs. Abundance: It's All in Your Head

My uncle believes everything should be cheap, as cheap as possible. He wants certainty in his life. My uncle, not in a bad way, would want to know who is getting paid what every time he makes a decision about who to hire. If that guy gets paid more, *that's not the guy*. This is all the criteria he needs.

The second guy could be 100 times better at his job, but my uncle is not concerned about that. He's concerned about cost alone. He would go to two heart surgeons and say, "Okay, you want $50k, you want $75k? I'm going with the $50k option." Half of $50k doc's patients are dead, but oh well.

[3] https://www.cnbc.com/2017/08/24/how-much-americans-earn-at-every-age.html Accessed February 18, 2018.

This is the scarcity mindset that I still see with some advisors I employ here: *if someone else is succeeding, that's somehow detracting from what I'm doing. It's a zero-sum approach.*

I'm pretty well known for my guerrilla videos (shot on an iPhone for that extra terrible and shaky look) among my peers. Sometimes they will ask me, "Aren't you afraid your clients are going to see those videos and feel like you're living too high on the hog?" Because I'm always somewhere, Guatemala, Croatia, whatever. My reply is always, "No, I don't have scarcity clients. My clients don't believe that because I'm somewhere else, or because I'm on vacation, their returns are going to be worse." That's just naïve. Really, it's just stupid.

My clients, in fact, encourage me: "Where'd you go? What'd you do?" Because that's what I do for them. Everybody gets lifted up together.

I don't like doing business when I don't feel like everyone's winning. Doing business in the late 1980s, I could say, "Look, here's the deal," and you'd say, "That seems pretty good, how about this or that?" and I'd agree. We'd shake hands and that would be the deal. It was a win-win.

Now, people do not do business like that. Now they're never satisfied. They've been taught that unless you destroy the other person, it's a bad deal. Today, everybody's going into the conversation with an all-or-nothing mentality. "I'm going to need a little more of your cake," is the thinking right now. And, "Let me have that frosting. You don't really need that fork." So, you're left with a crumb.

This approach breeds one thing: bad service, because you've just taught the person you're doing business with that you don't value what they do.

I want to empower people. I want people to feel comfortable providing me a higher level of service. Don't get me wrong, I want my fair share...but I don't need theirs, too. Some people say it's not personal, it's business. But I say, "It's all personal to me."

I had a meeting, literally yesterday, with a prospect, a soon-to-be client I hope, and he said, "How do I pay you?" I said, "We'll figure that out later, I'm not worried about that." He replied, "Just so you know, I want you to be compensated well. Because I know that will cause you to take good care of me."

So, what I'm getting at is accumulating wealth is just the opposite of what most people think. It's not scrimping and saving. It's building, growing, and empowering the people on your team, and in your life. This guy sees everyone he does business with as his potential ally and another set of eyes to look out for him. I suggest you do the same. This guy is worth $10 million.

He said, before I even asked for anything, "I want to make sure you're fairly paid. Because when I push back or I want something, I want to be comfortable I deserve it and you're being compensated." The result of this attitude is everybody feels good. If he calls me on Tuesday at 4:00 PM and says, "I need you to come out at six, I've got an emergency," I'm not going to think, "Well, I don't make any money off this person, I'm just going to make up a reason why I can't go." I'm going to make damn sure I drop what I'm doing and go help him. Most people do not think that way, and it's really a shame.

When I go into Bob's Sunoco to take my car in, I say, "Bob, make sure it's safe, make sure the tire tread is good, make sure the brakes are okay." If he tells me it needs front brakes and four new tires, that's what it gets. I don't question it; I don't say, "Can we get by with two? Are you sure? Let me go call somebody else." I trust him, and I want him to be compensated.

I went into his shop some years ago with one of my cars, and he said, "I think it's the radiator." So, he replaced the radiator. Unfortunately, I got halfway home, and it clearly wasn't the radiator, because the same problem happened again. I brought it back. He called me about two hours later, and said, "You're right, it wasn't the radiator, it was…whatever." He said, "I'm taking the radiator off. I'm not charging you for the brand-new radiator or the labor." Now, that probably cost him $400 or $500, but I've been his customer ever since, without question.

People have this scarcity mentality: if I screw everyone else over, I win. But in the end, the people you are screwing over are accumulating, and they're eventually going to come together—and the screwing you get will not be the type followed by a cigarette and a pizza. (Or is that just me?)

Bottom line, it's bad karma. Truth is, people don't want to hear about bad karma because it doesn't mean anything to them. Getting screwed over by someone they screwed over earlier, that they do understand.

The Abundance of Surrender

Another example of scarcity versus abundance thinking is found in two clients I've had over the years, two doctors. Same practice, same income, same whitecoat, same microscope and the same desire to be financially successful. Guy one would drive me out of my mind. He always wanted to know why this was up, and this was down, and why does that cost that?! The other guy, he would just write me a check, and say, "Don't bug me." This went on for years.

Guy number one, his net worth was probably somewhere in the $700,000 or $800,000 range. He spent his entire investing career scrutinizing every dime, every turn in the market, every geo political issue, every election. It was always something. Guy number two ended up worth $5 or $6 million dollars. This guy, he went skiing and traveled the world. This is not to say you should be ignorant. But it's worth considering how you spend your energy A) in life, and B) in investing. Somehow, trusting and letting go seems to work. I can't exactly explain why, it just does.

People choke the life out of the process. They overthink everything.

I still have this issue in the advisors I employ. I have advisors who are $2.5, $3 million producers, and I have $200,000 or $300,000 producers. The $200,000 guy, he'll spend a month researching a stock. The $3 million guy? He's playing golf. With his client.

Guy number two is trying to understand what his client cares about. Many folks would make fun of the golf thing or make fun of the advisor going to an event with a client, but the truth is, this is how you get to know people—get them out of the sterile office environment and really see what they are about. Trust me, most nights I'd rather be home with my family than eating another rubber chicken, but this is an important interaction for both advisor and client.

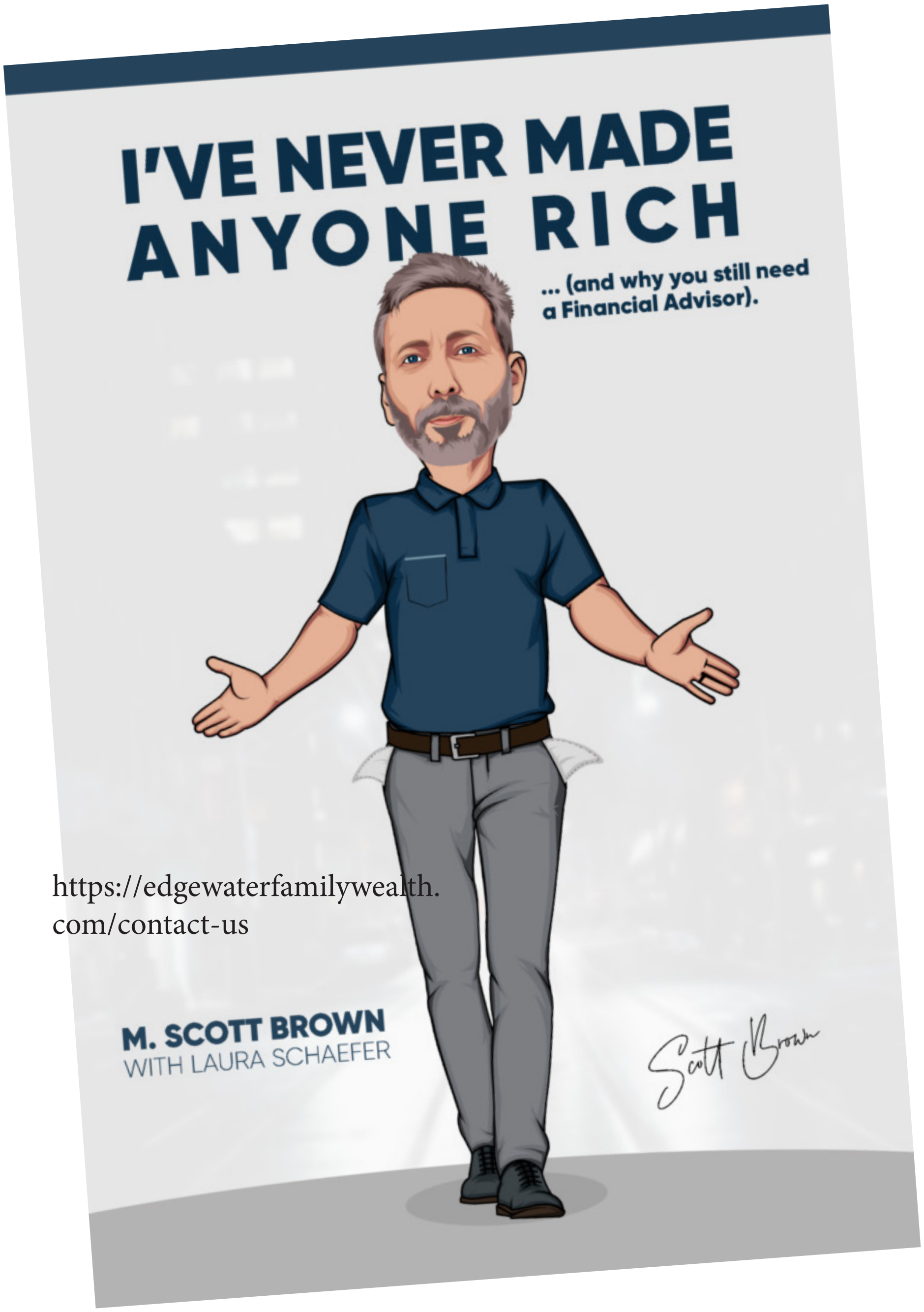
By the way, guy number one, the $200,000 producer, will never get the stock thing right.

Again, the first guy will never get it. He's choking the life out of the process. My uncle is another classic example. He has that engineer mindset, a certainty person: two plus two always equals four, and if it doesn't, the certainty person will do that math over and over again until it does. In investing, two plus two will *never* equal four. It equals five sometimes, it equals negative two, it even equals 14 once in a while. This is the randomness of investing-slash-life.

I understand people want to have absolute knowledge; they're just barking up the wrong tree when it comes to investing.

Key Chapter 1 Takeaways:

- You can't predict the future.
- Value your time.
- Empower others.
- Make a decision without agonizing over every detail.
- Embrace an abundance mindset.
- Stop believing in scarcity. 2 + 2 does not always equal 4.
- You can't have absolute knowledge when it comes to money or investing.



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