

**T H R E E**  
**BLIND**  
**MICE**



**T H R E E**  
**BLIND**  
**MICE**

HOW TODAY'S FINANCIAL  
PLANNING PROCESS LEADS  
YOUR MONEY TO A MOUSETRAP

**SCOTT S. MCLEAN**



Copyright © 2020 by Scott S. McLean

All rights reserved. Except for brief passages quoted in newspaper, magazine, radio, television, or online reviews, no portion of this book may be reproduced, distributed, or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or information storage or retrieval system, without the prior written permission of the publisher.

Published by

ADVISOR'S ACADEMY PRESS

Pompano Beach, Florida

ISBN 978-1-7341808-0-0

FIRST EDITION

Book Design by Neuwirth & Associates

Jacket Design by Germancreative

Manufactured in the United States

10 9 8 7 6 5 4 3 2 1

---

## DISCLAIMER

---

*The information contained in this book is for educational purposes only and should not be considered as specific planning advice.*



---

## FOREWORD

---

**M**oney is the *opposite* of the weather. Nobody talks about it, but everybody does something about it.

This probably applies to everyone, unless you live in sunny Death Valley, California, with 2.36 inches of rain per year. Just a tiny drop makes major headlines. But if you're one of those people who doesn't discuss money, that's about to change.

As we all know, money isn't everything; but it is right up there with really important stuff like breathing. And because the subject of money has both good and bad information being taught and even carried down through generations, you may wish to review these common statements and phrases and see if you are already subjective or biased on the subject of money.

Let's start with a question . . .

Are you Money Savvy or Financially Illiterate?

Consider the following common statements you may have heard or said before:

- Spend it, I'm only young once.
- It's only zero percent interest.
- I work hard and deserve it.
- I'm not sure what's in my bank account; my spouse deals with our finances and I don't know much about investing.
- My parent takes care of it for me.
- Investing is like gambling.
- I'll get to it later, and later never comes.

If you've ever uttered a variation of one of these phrases, this book is for you. If you've decided to take the bull by the horns and learn about your financial health, this book is for you. (The bull reference is not my idea of a financial pun, I promise. And if you don't get that little joke, all the more reason to keep reading.)

I'll show you that diving into your finances doesn't have to be painful. After you're done reading this book, big numbers will no longer scare you—at least, not too much. And you'll know the ins and outs of your personal wealth so well that your financial advisors will wonder as to whether you should start advising them instead.

Thanks for getting my book. As I enter my 37th year as a professional, I'm proud to share with you the common financial blunders, hiccups, screw-ups, and scams we have all done, heard about, or seen on a continual basis when it comes to the Three Blind Mice. As for the Three Blind Mice, well, the beat goes on—it's the same ol', same ol', as a simple shift in their practice could benefit others yet old-school practices continue at your risk.

Feel free to visit [www.3Blindmice.com](http://www.3Blindmice.com) for great information and insight to protect and grow your hard-earned money.

A handwritten signature in black ink, reading "Scott M. Lee". The signature is written in a cursive, flowing style with a large initial "S" and "L".

---

WITH DEDICATION AND  
WARM APPRECIATION

---

Thanks, Denise, for your incredible patience and insight. To my best friend, confidante, and wife, truly the Proverbs 31 woman for her wisdom, insight, and understanding, allowing me to do what I love. Thanks to my children as my absence from writing this book has come to an end.

Dad and Mom, thanks for your tough love and guidance as you encouraged me to press on toward the higher calling so others can benefit greatly. Your sound instructions, love, and continued stern and warm prodding were appreciated. As I often think to myself, the older I get, the wiser you become. I can't wait to see you in heaven, but there's no rush, 1 John 5:13.

Sondra, my brilliant and loving sister with more degrees than a thermometer, thanks for your consistent encouragement for me to get better at whatever I tackle.

Now, thanks to all those who have truly shaped my career. Continually learning from you is a jet on the runway of achievement and personal growth. My utmost, sincere appreciation to my mentor, close friend, and "professor," Dave Scranton, and the Advisors Academy members. Dave, thanks for partnering with advisors and me around the country with one higher purpose in mind—to help thousands of families sleep well at night with less financial worry due to your sound retirement income strategies.

Also, thanks for allowing me to work with Michelle O'Halloran and Advisors Academy Press; this book would not exist without her tremendous enthusiasm and encouragement, as she saw a deep need for the

## X ■ WITH DEDICATION AND WARM APPRECIATION

Three Blind Mice to work together and get this book out there for all to benefit from. Special thanks to Bill Johnson, teacher, advisor, writer, and author for your remarkable insight, guidance advice, and friendship during this journey. I cannot wait to barefoot water-ski with you.

Last but surely not least, my awesome staff. I'm so proud of them as they treat each and every client as a family member. They are so conscientious to their needs and concerns, which allows me to continue to serve new and current clients as well as help train others advisors throughout the country.

---

## INTRODUCTION

---

Heading into my 37th year in professional practice, and going strong with 60 years of life experience, has enabled me to write a book that believes we all deserve and need the best advisors as we head toward retirement. With 75 million baby boomers in the United States alone, and many already in retirement, we *all* need advisors working together. Nothing is more frustrating than paying for three different professionals who are not on the same page. No one really wants their life savings in the hands of the Three Blind Mice.

I've heard "knowledge is power" but I disagree . . . I say "applied knowledge is power."

I trust those reading this will not only enjoy this book as a valuable experience, but will read it at least twice in order to gain deep insight. And the valuable information written inside. Please put into practice as many of the tips and strategic information as possible so you don't easily get entangled. There are many financial traps that are before us, but more importantly, I wrote this book so that you can avoid all the mouse traps that can so easily entangle you.

Now, I know that, as professionals, we are all swamped; so if I can persuade and encourage every lawyer, accountant, and financial professional to make an effort to work together, then this book has done some good. For those who work with their clients, please work harder to communicate with each other and with the other industries that service your client for the betterment of the client so they can sleep well at night knowing their financial and estate affairs hum like Beethoven's Fifth Symphony far exceeding fiduciary responsibility and achieving a beautiful financial masterpiece.



---

# TABLE OF TRAPS

---

## CHAPTER 1

<b>Welcome To The Rat Race</b> . . . . .	<b>1</b>
Trap #1: You Can't Be Blind As A Bat Or Somebody Else Will Control Your Destiny . . . . .	9
Common Stock. . . . .	11
Common Shares And Taxes. . . . .	14
Mutual Funds . . . . .	16
Leveraged Funds . . . . .	17
Inverse Funds . . . . .	18
Open-End Funds . . . . .	18
Load Funds. . . . .	19
No-Load Funds. . . . .	20
Closed-End Funds . . . . .	21
Mutual Funds And Taxes . . . . .	22
Exchange-Traded Funds (ETFs) . . . . .	23
ETFs And Taxes . . . . .	24
Bonds . . . . .	25
Bonds And Taxes. . . . .	28
Zero-Coupon Bonds. . . . .	29
Zero-Coupon Bonds And Taxes . . . . .	30
Preferred Stock . . . . .	31
Cumulative Versus Non-Cumulative. . . . .	32
Convertible Preferred Stock . . . . .	32
Preferred Stock And Taxes. . . . .	33

**XIV ■ TABLE OF TRAPS**

Real Estate Investment Trusts (REITs) . . . . . 34  
REITs And Taxes. . . . . 36  
Mousetrap #1: You Can't Be Blind As A Bat . . . . . 37

**CHAPTER 2**

**Trap #2: Perceptions And Deceptions  
Of Risk And Reward; You May Not Want**

**The Biggest Piece Of Cheese . . . . . 39**  
The Obscure Risk-Reward Relationship . . . . . 40  
Going Once, Going Twice, Sold . . . . . 41  
Price Is The Equalizer . . . . . 42  
Mousetrap #2: Perceptions And Deceptions Of Risk  
And Reward . . . . . 44  
Maximize And Minimize . . . . . 45  
Auction-Rate Securities: The Day Banks  
Didn't Show . . . . . 46

**CHAPTER 3**

**Trap #3: The Destructive Time And Money Illusion:  
Why One Dollar Doesn't Always Equal One Dollar . . . . . 49**

Inflation: A Thief In The Night. . . . . 51  
Measuring Inflation: The Consumer  
Price Index (CPI) . . . . . 57  
Mousetrap #3: The Destructive Time And Money Illusion . . . . . 58  
A Planning Idea . . . . . 61

**CHAPTER 4**

**Trap #4: The Misunderstood Magic Of  
Diversification: Free Insurance Against The Mousetraps . . . . . 62**

The Magic Of Diversification . . . . . 64  
How Many Stocks Is Enough? . . . . . 68  
Spiders To The Rescue. . . . . 69  
When Risk Isn't Risky. . . . . 70

Taking Risk For No Reward . . . . . 71  
 Mousetrap #4: The Misunderstood Magic  
 Of Diversification . . . . . 72

**CHAPTER 5**

**Trap #5: The Best-Laid Plans Of Mice and Men:  
 Average Traps That Will Foil Your Financial Plan . . . . . 75**

An Average Trap That's Not So Average. . . . . 76  
 The Average Is Most Likely Wrong . . . . . 77  
 The CAGR Trap . . . . . 79  
 Lose Money By Earning An Average Of  
 73 Percent Per Year . . . . . 82  
 Market Volatility: The Farmer's Plow. . . . . 86  
 Why Three Blind Mice Miss By Miles. . . . . 90  
 A Look At 100 Years Of Returns. . . . . 93  
 Does History Repeat Itself?—Baby Boomers Beware. . . . . 96  
 Mutual Fund Madness: The TWR Trap . . . . . 98  
 The Beardstown Ladies Who Beat  
 Wall Street (Almost) . . . . . 101  
 Mousetrap #5: The Best-Laid Plans  
 Of Mice And Men . . . . . 103  
 Mice In A Maze: The Problems Begin. . . . . 104  
 Managing Risk, Not Uncertainty . . . . . 107

**CHAPTER 6**

**Trap #6: Hidden Costs Can Rob You Blind:  
 The Biggest Traps Are Those You Can't See . . . . . 109**

Unmasking The Hidden Fees . . . . . 111  
 What A Difference 1 Percent Makes . . . . . 112  
 The Cost-Efficiency Of SPY . . . . . 114  
 Turning Over More Rocks . . . . . 115  
 Idle Cash Has A Cost . . . . . 116  
 Mutual Funds Pay Commissions, Too. . . . . 116  
 The Cost Of The Bid-Ask Spread . . . . . 117

## XVI ■ TABLE OF TRAPS

Prices Are Slippery . . . . .	118
Uncle Sam Affects Your Plan . . . . .	119
Volatility: Market Whipsawing Carries A Price . . . . .	119
Mousetrap #6: Hidden Costs Can Rob You Blind . . . . .	121

### CHAPTER 7

#### Trap #7: The Madness Of Mice Versus Markets:

#### Trying To Profit From Stock Market Patterns . . . . . 123

Looking For Footprints . . . . .	125
Stuck In Rush-Hour Traffic . . . . .	126
Trapped In Trading Traffic . . . . .	127
How Fast Is Fast? . . . . .	129
Nobody Cares What You Think . . . . .	131
Stock Prices Are Largely Random . . . . .	131
A Tale Of Two Juicy Scandals . . . . .	133
The Charts (Don't) Tell All . . . . .	134
Prices Aren't Perfect (But They're Close) . . . . .	135
The Value Of Information . . . . .	135
Tattered Tea Leaves And Cracked Crystal Balls . . . . .	136
The Indisputable Math Of Market Timing . . . . .	138
Selling Stock-Picking Services . . . . .	138
The Market-Timing Queen . . . . .	139
Mousetrap #7: The Madness Of Mice Versus Markets . . . . .	142
It's Harder Than You Think . . . . .	143
Contrarian Versus Momentum Investing . . . . .	143
Disconnected Advisors Means Unknown Risks . . . . .	144

### CHAPTER 8

#### Trap #8: Retirement Planning Without Plans:

#### Failing To Plan Is Planning To Fail . . . . . 145

Plan #1: Get Out From The Mountain Of Debt . . . . .	147
A Little Extra Goes A Long Way . . . . .	148
Debt Snowballing . . . . .	148

Tap Into Savings If Necessary . . . . . 149

Don't Stop At Credit Cards. . . . . 151

Small Deposits Make Big Differences . . . . . 152

Plan #2: Build An Emergency Fund . . . . . 152

Plan #3: Sell Your Home And Downsize . . . . . 153

Plan #4: Guaranteed Cash For Life . . . . . 154

Immediate Annuities. . . . . 155

Delaying Benefits With Deferred Annuities . . . . . 156

Variable Annuities: Buyer Beware . . . . . 158

Uncle Sam Wants His Cut . . . . . 160

Plan #5: Purchase A Medicare Supplement . . . . . 161

Medicare's Alphabet Soup . . . . . 162

Supplemental Coverage: Medicare Part C  
And Part D . . . . . 163

Medigap Policies . . . . . 164

Plan #6: Build A Bulletproof Portfolio . . . . . 164

Mousetrap #8: Retirement Planning  
Without Plans. . . . . 166

**CHAPTER 9**

**Trap #9: Tres Ratones Ciegos  
(Three Blind Mice): Financial Planning Is  
Dangerous, If You Don't Speak The Language . . . . . 169**

The Fiduciary Standard . . . . . 170

Fee-Only Versus Fee-Based . . . . . 173

Advisors, Agents, And Brokers . . . . . 173

Risk: It's All Relative . . . . . 176

Short-Term Or Long-Term Risk? . . . . . 179

Fund Incubation: Performance Made Easy . . . . . 180

Back-Testing: Digging For Gold . . . . . 181

Mousetrap #9: Financial Planning Is Dangerous  
If You Don't Speak The Language . . . . . 184

**CHAPTER 10**

**Trap #10: Planning To Retire,  
Without Planning To Change . . . . . 186**

The Disposition Effect: The Value Of Gains  
And Losses . . . . . 189

DIY: Saving On Fees. . . . . 190

One-Stop-Shop Advisors. . . . . 192

The Multiple-Advisor Trap: Three Blind Mice. . . . . 194

Surviving Retirement Traps. . . . . 196

Picking Your Portfolio. . . . . 201

The Benefits Of Retirement Planning . . . . . 201

Mousetrap #10: Planning To Retire Without  
Planning To Change . . . . . 202

Off To The Races . . . . . 203

**CHAPTER 11**

**Trap #11: Let's Get Together Your Team And Concerns . . . . .205**

Real-Life Scenarios Legal And Financial . . . . . 209

Three Blind Mice, Asleep . . . . . 213

Details Matter—Vanishing Inheritance. . . . . 214

Portfolio—Taxes And The Will. . . . . 216

*Endnotes* . . . . . 219

*Charts* . . . . . 251

*Tables* . . . . . 256

*Illustrations* . . . . . 259

*Index*. . . . . 261

**T H R E E**  
**BLIND**  
**MICE**

HOW TODAY'S FINANCIAL  
PLANNING PROCESS LEADS  
YOUR MONEY TO A MOUSETRAP

**SCOTT S. MCLEAN**



---

## CHAPTER 1

---

# WELCOME TO THE RAT RACE

*Three blind mice*

*See how they run*

*They all ran after the farmer's wife*

*Who cut off their tails with a carving knife*

*Did you ever see such a sight in your life*

*As three blind mice?*<sup>1</sup>

**Y**ou've never seen such a sight in your life. I'm not promoting a nursery rhyme that terrorizes furry critters with a carving knife. It's not a good image to plant in your child's mind at bedtime—unless you're Stephen King.<sup>2</sup> Instead, I'm talking about a similar image that has, unintentionally, been created by the financial planning industry. It doesn't involve wives with knives, but it'll give you nightmares just the same.

My name is Scott McLean; I started in the industry in 1982 and received my licenses in March of 1983. That seems like centuries ago. I was ready to save the world and help as many people as I could. Like most 23-year-olds, I was convinced I knew everything. After meeting so many families, I noticed they all had something in common. They wanted to make money and never took classes teaching them how. Like supply and demand, the need for financial education was overwhelming. All I could think about was how many people I could help and educate in my financial journey. I thought the opportunities were limitless.

Now going on my 37th year in the industry, my clients' financial needs are still the same. Most people seek and need the education, guidance,

and coaching to face the unknowns in life—and there are many unknowns. Have you ever told yourself, “I wish I knew then what I know now”? How about, “The older I get, the wiser my parents become?”

So, after many years of working, continuing my education, and guidance from dynamic mentors, McLean Advisory Group<sup>3</sup> was born from the desire to help people grow and protect their wealth. As clients were acquired in the early years, it became clear that most had no idea about their overall financial picture. Most, I found, were seeking a product, a quick fix, not a solution. Failing at finance isn't necessarily the client's fault. The financial education system was broken and remains that way today. In elementary school, high school, and college, students learn everything from the mysteries of the pyramids to the philosophies of Plato,<sup>4</sup> but none learn the value of a dollar, how to balance a checkbook, or how to fund an IRA account. Yet, finance is the one topic that affects everyone's life in the most profound ways. Have you noticed how emotional money is? Yup, that dirty, smelly dollar bill can be very emotional to all. Here's a story you might relate to. Eleven-year-old Charlie had one goal in mind: going to the county fair with his friends—with no parents. Freedom rings.

With that one goal in mind, he decided to earn enough money to have one heck of a fun-filled day. So Charlie mowed lawns, trimmed bushes, picked weeds, and completed many other odd jobs around the neighborhood. In just one week he earned and saved \$100. He had never seen so many one-dollar bills. All the excitement he was about to have was well worth the price of his aching muscles, cuts, and blisters. It was the opening day of the county fair and he was ready.

With his entire savings in his pocket, he strutted off to the Freedom Fairgrounds with his buddies. This was the best day of his life. He felt empowered, rich, and proud of himself for all he had achieved. After a few rides, basketball shots, the air rifle concession, and eating the gut-wrenching hot dogs with soda pop, he was off to the most thrilling ride of all—the “Flying Spinner.” As he dug into his pocket to pay, he started sweating and looked around frantically as his friends asked, “What's the matter?” He went silent as he tried to recount all his previous

steps. Checking his pocket for the fourth time, he realized he must have lost his last \$20. He was ready for the best ride in the park but now he had no money. As he searched, the fear of not going on the ride gripped him and he said dejectedly, “I can’t afford the ride.”

Tell me, how much more emotional can money get for a young child?

Does this sound familiar? Perhaps those of you who encountered retirement just to face not only one death-defying ride of 50 percent or more, but two stock market crashes, one in 2000 and the other in 2008, can relate. Can you recall the feeling of horror? How about not wanting to open the investments statement that reeked with horror? That is the kind of emotional turmoil we all experience. Still not convinced? Another awful scenario—losing your life’s savings just to hear a salesman assure you it’s not the end of the world and you’ll make that money back; just “hang in there” as one’s life savings evaporates into thin air, or hang in there, “we’re all in this together,” or, better yet, “it’s time in the market, not timing the market.” I’m sure those 60 to 80 years old were not excited at all.

So, as you can see, money is emotional, gut wrenching, and can be devastating. Heck, I think I read somewhere that the number one reason for divorce is money worries. Crows and clowns show up at the funeral. Friends and family ripped apart over money due to simple misunderstandings. Money affects everyone, no matter what their age.

My mission is to help educate, guide, and counsel people—people like Charlie—to make smart decisions with their hard-earned money.

Because of this, people seek advice from financial professionals and what they don’t realize is the way the financial planning industry is organized, or perhaps unorganized, which creates the traps, chaos, and trouble, as you’ll soon realize, or might be already aware of. Please take these steps so it doesn’t happen to you.

I call this the great disconnect. You may have received investment advice from a financial advisor; had your taxes done by an accountant; and your estate plan, such as your wills and trusts, written by the attorney. You took the right steps. You did the adult thing and felt secure. Yet, the trap had been set. The problem is that none of these key consultants,

advisors, accountants, and attorneys ever consulted with each other about you. They call it professional client privilege. In the medical world, they call it HIPAA, or the Health Insurance Portability and Accountability Act,<sup>5</sup> which is legislation that outlines the provisions for the safeguarding of personal medical information. My dad called it “passing the buck.”<sup>6</sup> Heck, it’s easier.

From my competitive water-skiing days I’ve had many surgeries over the years—knee, shoulder, and elbow, just to name a few. I noticed the professionals who were concerned for my well-being shared their findings with others involved in my care. Brilliant. Let me explain. As they rolled me up to the slab, Dr. Knife arrived at the cutting station as I lay, helpless. In preparation for the procedure, he reviewed all the medical findings from many doctors like Dr. Radio (radiologist), who took X-rays and EKG; Dr. Breath-right (cardiologist), making darn sure my heart and lungs were strong enough to handle the operation; and Dr. Vampire (phlebotomist), who took samples of my blood. Dr. Dreamer arrived the (anesthesiologist) and medicated me for the best nap ever, as I raised my hand like a conductor telling the orchestra to play on when Dr. Knife went to work. When I awoke from my nap, I was greeted by the wonderful staff I call the cleanup crew, who pinched my arm with a needle. Voila: the pain-relief medication eradicated the pain. The cleanup crew followed up immediately after Dr. Knife was done. The nurses whom I call the “Care Crew” were my angels. It was a wonderful harmonization of efforts because they were working off the same sheet of music.

I, like you reading this, desire to be treated with the utmost care and concern when it comes to my health as well as my wealth. The lack of money when you’re not feeling well becomes even more emotional.

Does your financial team know what’s going on and reading from the same sheet of music?

If not . . . you’re working with three blind mice.

For example, you may receive investment advice from a financial advisor, have your taxes done by an accountant, wills and trusts written by an attorney. If it sounds like you’re in good hands, the trap has just been set. The problem is that most all key consultants, advisors, accountants,

and attorneys don't communicate with each other. In Chapter 11, I'll give you scenarios, ideas, and hints so you will be alerted to traps we are all prone to.

Now, I'm not saying that anyone is being negligent; it's just the nature of the financial planning industry. Everyone trains to become highly specialized, knowing more and more about less and less, until they know everything about nothing. Okay, that may be an exaggeration—specialization means they spend more time sharpening their own skills and knowledge, not each other's. Individually, they may be brilliant, but when they're not working together, they're blind to taxes, blind to investing, and blind to your plan.

Here's how traps are set.

An attorney may have drafted a perfectly valid will, complete with all the asterisks and disclaimers, but that doesn't mean it's a good contract for the client's overall financial picture. Perhaps the client named his wife as beneficiary of all assets in the will, but years ago named his ex-wife as beneficiary on his bank accounts, retirement accounts, and 401(k) plans through his financial advisor. Did you know that beneficiaries will supersede a will? In other words, when his wife finds out she gets nothing, it'll be more than just a bad hair day. If the marriage wasn't dissolved by death, it would have been done in divorce court. Talk about the vultures circling. Believe you me, you've been there, done that, and it can get downright ugly, especially when the corpses rise from the dead, just to get more from you. Now, accountants get blinded, too. Their job is to minimize your taxes, but that's not the goal of long-term financial planning. To achieve financial success, you must maximize after-tax returns. Minimizing income taxes is easy: quit working. You'll do great at tax time but will have nothing to show for it in the future, hardly a good financial plan. The U.S. has a progressive tax system, which means the more you make, the more you pay. Earning more money will never put you in a worse situation, even though you're increasing your tax bill. Higher after-tax returns create the path to overall wealth, even if your tax performance is less than optimal. Concentrating on tax minimization can be hazardous to your wealth.

Here's a good question to consider. If your mom, dad, or spouse passed away and you had financial questions, would you call the financial advisor, lawyer, or accountant?

Does it make sense that the financial advisor should know most of the details? In other words, with one call, you get the concerto with less stress. Hello . . . McFly . . . McFly,<sup>7</sup> can you understand why the concerto needs the conductor to orchestrate the legal, tax, and financial challenges that will appear?

Even financial advisors operating independently can inadvertently create nightmares, too.

Perhaps one certifies a client's accounts are well diversified and that sufficient contributions are being made to retirement accounts. The children's college funds are on track. The bills are all paid. If the advisor doesn't know the client's trust account was drafted in a different state from his current residence, it could separate him from his money quicker than a carving knife.

Now just imagine you or a friend has a special-needs child who is on Medicaid and that same child is a beneficiary on the investments. *C'est la vie*, goodbye benefits; and the trap could have been avoided because the advisors, lawyer, or perhaps both never asked the simplest critical beneficiary questions to protect the child and estate. We will talk more about that later. Please, avoid this common beneficiary trap.

Now, rather than retiring in luxury, his client may rely on "credit card debt monetization to meet future cash-flow demands." In simpler terms, robbing Peter to pay Paul—just trying to survive this way could be a living nightmare.

You may think I'm exaggerating these issues, but I can assure you that truth is stranger than fiction. These problems are very real and costly. Always remember. The Three Blind Mice never pay the price; you do.

I've always known this three-way blind communication problem existed, and how damaging it can be, which is why I designed my advisory group in-house, with currently two attorneys, three tax preparers, and two financial advisors. I feel it's a necessary arrangement for anyone entrusted with the ultimate fiduciary responsibility—your financial future

and legacy. Most of you, however, use separate accountants, attorneys, and advisors to make your financial plans, and that's OK. Yet, they're scrambling in opposite directions, and you must synchronize them.

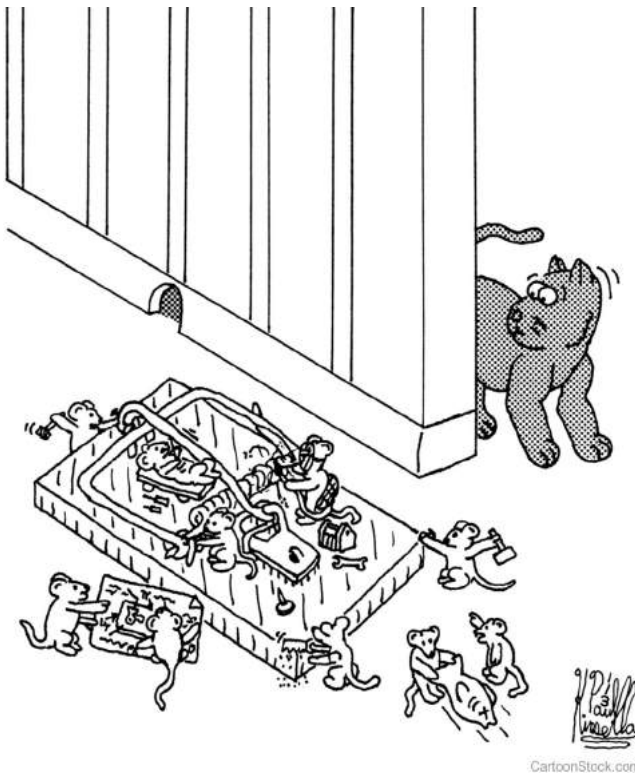
When have you and your three blind mice (advisor, accountant, and attorney) discussed your financial and estate game plan together? Has your advisor ever offered to call your accountant and attorney to ensure all your documents and goals are aligned? Or is it still just a big disconnect?

That's what inspired me to write this book. My dad, Kenneth L. McLean, Korean War veteran, mentor, friend, and best man at my wedding, spoke six languages fluently and drilled into me that communication is everything. He made it a point to make sure that I should be clear and direct with people; things can get unwieldy. He also made sure if there was a problem that I fix it at once. A problem unattended grows. "If you're not part of the solution, you're part of the problem." So don't complain about it if it's in your power to correct it. Come up with a solution, and then tell others so they can make a course correction to avoid a disaster. As a watchman for my clients' finances, I want to offer sound, strategic solutions to the unforeseen, unanticipated, and unplanned traps that await you as best as I can.

Now, if you're a DIYer (do-it-yourselfer), please read this book carefully to correct any steps you may have overlooked. In my course of meetings with 25-plus families a week, I can assure you the areas described herein are dreadfully overlooked. I'll cover some of the most important financial topics that must be synchronized with your three blind mice. On the other hand, if you're a financial advisor, don't take shortcuts just for the next quick bite of the cheese. Be the leader—you are a vital part of the solution for your clients' care, custody, and ultimate concern. Take the time to make a total impact. If you're an attorney or accountant, why not add to your practice a holistic view so everyone can read the music? This book will highlight many areas of concern to improve and bolster your clients' confidence and avoid the many disconnects that are apparent today. It'll take more time, and your clients will appreciate the extra mile that you take to keep them out of the mousetraps. The financial industry owes it to them, so let's be part of the solution.

My goal is to share with you the key points of financial planning, which I call walking through the valley of the shadow of death. What I mean by that is, like any specialized field, financial planning has its own language, products you've never heard of, and risks you'll never see. Once we shine a spotlight on these important topics, you'll fear no evil and have a better chance for success by knowing the right questions to ask and mousetraps to avoid. It's up to you to keep your three blind mice connected. Your financial future as well as your family's may depend on it, big-time.

Any bad decisions are in the past, but they'll eventually connect to your future, unless you make changes today. However, if your financial plans are disorganized by the Three Blind Mice, they'll make changes that end up being for the worse. We've all seen bull markets, bear markets, crashes, and scandals. Believe me when I say, you've never seen such a sight in your life as the Three Blind Mice. Let's see how to keep them from leading your money into a mousetrap.



**TRAP #1:  
YOU CAN'T BE BLIND  
AS A BAT OR SOMEBODY ELSE WILL  
CONTROL YOUR DESTINY**

A few years ago, I took my children on a fun trip to the zoo. While we were there, we noticed an ostrich with her head buried in the sand; she was checking on her eggs. Momma ostrich was so focused on the eggs that her vitals were exposed, and she couldn't care less who was watching her. It hit me like a ton of bricks. The ostrich is like many of my clients' spouses. Let me explain. Generally, in life, one spouse is the hunter while the other is the gatherer with their head buried in the sand and with no other concern. Gatherer-spouses are so concerned about the family and the day-to-day duties and tasks, they have no clue or thought of the future. It's normal.

My wife and I both work at different areas as she handles the accounting and payroll for my firm as well as managing the equestrian center. We are in constant communication for the vital areas of concern, but the small day-to-day details we take care of ourselves. Yes, I do get lots of honey-do lists and texts.

Simple, right? Not always. We know we must communicate especially on the critical areas of our businesses so the wheels don't fall off. Working in this energetic, ever-changing industry, in order to get to know the people I meet, I ask them many exploratory fact-finding questions. I often get replies such as, "I don't know," "I'm not sure," "I'll look into that," or, at times, I'll wait to hear a pin drop as one ponders the answer with a quick response—"We need to fix that." These dire questions are vital to one's financial and estate planning. The Three Blind Mice have no clue because they simply don't ask or, just as often, they say the matter in question is not their area of concern. Let me challenge you with just a few basic questions that should be asked whether you're married, divorced, or single.

- A.** Do you know how much you're spending? What percentage of the money saved is out of the reach of Wall Street's risk?

- B. If your spouse were to die, how much income do you continue to receive from the pension, Social Security, and investments?
- C. Do you get to keep the company's health or life insurance benefit? What is the cost and benefit?
- D. Have you named beneficiaries on both the primary and contingents on all your investments—401(k), IRAs, bank accounts, and CDs? When the advisor read the will, did they coordinate the assets according to the trust or will? And do they have a current copy of their clients' power of attorney on file?
- E. Do you have any disabled or special-needs children or grandchildren? How about wayward children who are on the wrong side of the tracks and who may need the money managed upon your passing?
- F. What medications are you currently taking? Are your spouse's lights going dim? Are you or your spouse a veteran and aware of free long-term-care benefits or other service-connected benefits you are entitled to?

These are just a few questions that are basic, yet overlooked, that can easily lead to a chaotic financial nightmare that will stir all three of the blind mice areas of concern, the paying of unnecessary fees, and excessive taxes.

Please address it now. Don't wait. Pull your head out of the sand and visit my website ([www.3blindmice.com](http://www.3blindmice.com)) for an energetic list of questions you can use to better your overall picture today. The financial process can lead your money to a mousetrap as you'll see as we run through this book.

The financial planning process can leave you in the dark. If you have no idea about the financial products your advisors are talking about, darkness can turn pitch black. Not organizing your three blind mice is bad, but when the blind lead the blind, it's worse. As a client, you can't be blind as a bat. We don't need a fourth blind mouse. As former General Electric CEO Jack Welch <sup>8</sup> said, "Control your destiny, or somebody else will." I say that putting your head in the sand only leaves your vitals exposed. Now let's turn the light on the financial toolbox of investments.

## COMMON STOCK

OK, name any big business or product, and chances are it's a publicly traded company. Walmart, Home Depot, Apple Computer, Amazon.com, McDonald's, IBM, and Coca-Cola are all publicly traded. When a company is publicly traded, it's not owned by any one person. Instead, it's owned by the "public," and anyone who wants to buy a piece of the company can do so through regulated exchanges like the New York Stock Exchange (NYSE) or NASDAQ.

Almost all corporations begin as private entities. The advantage of taking a company public, however, is that the founders can quickly generate enormous amounts of cash in exchange for taking on public partners. For instance, Facebook began in a college dorm room by Mark Zuckerberg<sup>9</sup> and a few friends, and while it was probably destined for success regardless of its structure, by taking the company public through an initial public offering (IPO), Zuckerberg raised an instant 104 *billion* dollars to expand the company. That's the power of having publicly traded companies. He no longer owns the company and retains 57 percent of the voting shares, so he still has control over the company's direction. A well-developed stock market is always present in any thriving economy. There's no faster way to create businesses and employment.

Most publicly traded companies have two types of stock: common shares and preferred shares. When you hear investors or advisors talk about shares of stock, they're usually talking about common shares. If you buy shares of Facebook, even just one share, you're technically part owner of the company. Now, don't expect that will get you invited to company picnics or boardroom meetings, but you're still part owner of the company nonetheless. You get several benefits by owning common shares of stock. First, there's no limit on how much money you can make. As the market value rises, so does your investment. Second, you have limited liability, which means you can only lose the amount you have invested. If you buy 100 shares of stock at \$30 per share, the most you could ever lose is \$3,000. Of course, having a publicly traded company lose 100 percent of its value is extremely rare, but it does happen. For

example, in 2000, Enron was one of the largest companies with over 20,000 employees and over \$100 billion in revenue. One year later, it was bankrupt. It's not uncommon to see shares of stock lose a significant portion of their value, perhaps 30 percent or more in a short time. Have you ever heard of a restaurant chain called Chipotle? Below is a chart of Chipotle Mexican Grill<sup>10</sup> (ticker symbol, CMG) whose price fell from \$490 per share to \$302, or about 38.5 percent, over a four-month period between May 12 and August 25, 2017, mostly due to one of many E. coli outbreaks that plagued the restaurant.

Dramatic losses like this are the biggest risk of owning individual shares. No matter how confident you may be in the performance of a company's shares, there are countless factors that nobody can account for—lawsuits, scandals, regulations, competition, and currency valuations just to name a few. Always remember the farmer's plow.

However, in exchange for taking this risk, it's possible you may get dramatic price increases, far larger than the overall market. Like all risk-reward trade-offs, the larger the gains you shoot for, the larger the potential losses.

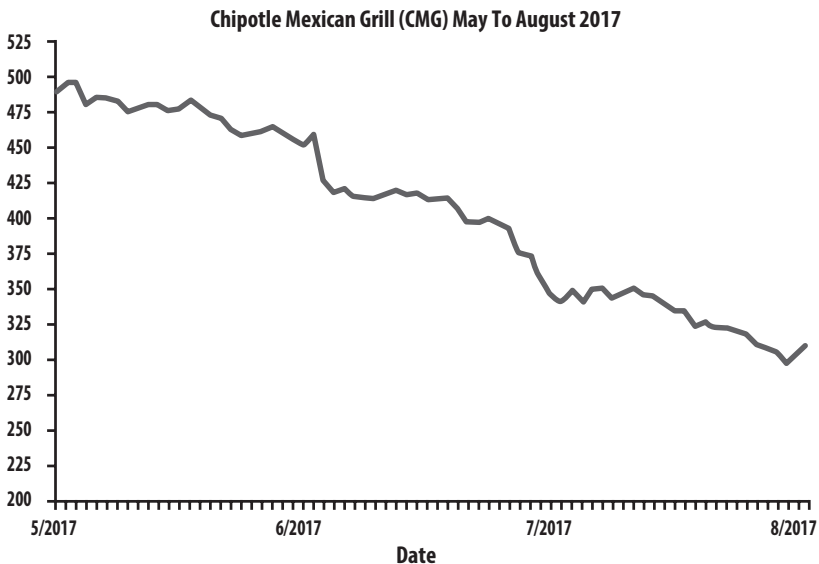


CHART A

Another benefit of common stock is that many pay dividends, which is a cash payment per share, usually made quarterly (although a few stocks pay monthly). For instance, if a stock pays 20 cents per share every quarter and you own 1,000 shares, you'll automatically receive \$200 cash deposited to your brokerage account each quarter. However, if a company doesn't pay dividends, it's possible they will begin to pay them in the future. Theoretically, all companies must eventually pay dividends. If a company announced it would never pay a dividend, it would be a financial black hole and be worthless. Still, some companies can go decades before declaring dividends. Is it a bad sign if a company doesn't pay dividends?

Not at all. Most start-up companies or highly profitable companies prefer to take their profits and reinvest it in the business. If the company is doing well, you can make just as much money, if not far more, from the stock price appreciation. Don't discount a stock just because it doesn't pay dividends. For stocks that do pay dividends, however, it's a nice way to generate income without having to sell your shares. For instance, in January 2018, AT&T (ticker: T) was trading for about \$37 and pays a 50-cent dividend each quarter. The dividend yield is therefore 5.4 percent, as it pays \$2 total during the year or \$2 over \$37 for a total of 5.4 percent. If you own 1,000 shares, you'll get a nice \$500 check every quarter. However, this doesn't mean you're guaranteed to earn 5.4 percent on your money. To make that return, you must buy the shares at the current \$37 price and sell them for the same price in one year after you've collected all four dividends. Because it's unlikely that you'll sell your shares for the exact price you bought them, you'll probably make something more than 5.4 percent if the stock price rises, and something less if it falls.

Does the concept of dividends make you wary yet? To add to the uncertainty, dividends may fluctuate based on the company's success. If times get tough, companies may stop paying dividends, or reduce the dividend amount. For instance, General Electric (GE) never missed a dividend payment for more than a century. More impressively, it continuously increased them, until the market crash in 2008. Because of the market uncertainty at that time, GE cut its dividend by 68 percent, from 31

cents per share to only 10 cents per share. Beginning in September 2010, GE increased it to 12 cents and has been steadily increasing it since. In February 2017, it paid 24 cents per share. Just realize that dividends are not guaranteed to continue forever. They may be increased, decreased, or cut at any time, as they depend on the risk of future business.

Sometimes corporations pay *special dividends*, which are onetime payments outside of the ordinary dividends. Special dividends are usually paid after a company has acquired a large cash balance. In 2004, Microsoft paid a \$3 special dividend to its shareholders, which amounted to about 10 percent of the stock's value, or \$32 billion.

No reason to be completely scared off, though. Despite the risks, common shares have returned about 10 percent per year over the long run. Once you discover the historic returns and potential for dividends, common shares are anything but ordinary. For long-term investors, common shares are necessary to meet nearly all financial goals. Don't let the word "common" make you think they're just average. Common shares are responsible for the majority of wealth created in the stock market. As I've mentioned many times in my radio shows, seminars, and courses, "money is emotional." What is the goal? Is it growth or income you're looking for? Investing in the stock market world can make many folks overdose on Pepto-Bismol just to get through it. So let's put on the scuba gear and slowly make our descent into the world of taxes.

## COMMON SHARES AND TAXES

Throughout the book, I hope to explain the basics of how taxation works and how you will be affected. Again, always seek the advice of a tax professional for your situation. Common shares are taxed in two ways: capital gains and dividends. For capital gains, the tax rates depend on your holding period. If you hold your shares for more than one year (366 consecutive days), you'll generally receive more favorable taxation. For 2018, the 22 percent and 35 percent brackets are subdivided into a low and high category for calculating capital gains. The lowest two tax

brackets of 10 percent and 12 percent owe zero long-term taxes, none. However, those in the upper end of the 12 percent bracket (those earning \$38,601 to \$38,700) will actually owe more for long-term capital gains. All other brackets continue to receive much lower capital gains rates as an incentive to hold them long term. Short-term capital gains are taxed as ordinary income, which means they're taxed at your marginal tax rate. For example, if you buy 100 shares of Wacky Widgets for \$100 per share and sell them for \$110 per share, you'll have a 10 percent return and will owe tax on the \$1,000 gain. The taxes depend on your holding period as shown in the table below.

2018 Tax Bracket	Short-Term Taxes	Long-Term Taxes	Percent Savings From Holding Long-Term
10%	\$100	\$0	100%
12% (low)	\$120	\$0	100%
12% (high)	\$120	\$150	-25.0%
22%	\$220	\$150	31.8%
24%	\$240	\$150	37.5%
32%	\$320	\$150	53.1%
35% (low)	\$350	\$150	57.1%
35% (high)	\$350	\$200	42.9%
37%	\$370	\$200	46.0%

TABLE A

The above tax table makes it clear that you must pay attention to taxes, especially if you're close to the one-year holding period. It makes no sense to sell shares after 10 months, for example, when hanging on for two more months can save nearly 40%, or more, in taxes. In fact, since 1957

when the S&P 500<sup>11</sup> took its current form, the index has never returned more than 40 percent in any given year. Yet, by holding shares for just another month or so, you may be able to save that much in taxes. Money saved is money earned.

Investors are often guilty of selling quickly because they're fearful of watching those gains turn into losses. However, most investors take those gains and buy shares of a different company. Who's to say the new purchase is any safer? Continuously jumping in and out of stocks to preserve profits is like switching to a different-colored car every few miles on your way to work believing you'll be safer. You're still in a car in the same traffic. Switching to different stocks through the year keeps you in the same market, exposed to the same overall risks. If your retirement goals can be met with 10 percent or 15 percent market returns, you must question the motive of advisors who suggest lots of buying and selling through the year. Just a couple more months may add an extra 40 percent or more to your nest egg.

If a stock pays dividends, they're usually taxed as ordinary income. However, certain dividend payments may be "qualified dividends," which means they're taxed as long-term capital gains. To qualify, it must be an American corporation or qualified foreign corporation. Second, there's a tricky holding period requirement that you must meet. The IRS usually requires investors to hold preferred shares for more than 60 days during a 121-day period that begins 60 days before the next dividend date. Sound confusing? Just ask any of your three blind mice, and you'll likely get a number of different answers. Financial planning isn't just about finances. It's about understanding the legalities of it.

## MUTUAL FUNDS

The long-term benefits of common stocks are hard to beat, but that's assuming you're buying low and selling when they are high. But what if you're close to retirement and bought Chipotle Mexican Grill just before

the large drop? At the other extreme, what if the stocks you bought had lackluster performances, but you missed all the stocks that were Wall Street's home runs? Stepping into traps and overlooking the winners is the price you pay for choosing individual stocks.

However, those regrettable outcomes can be greatly reduced by purchasing mutual funds. A mutual fund is a professionally managed investment that owns many different stocks at the same time. In a sense, you're buying into another investor's portfolio. Mutual funds<sup>12</sup> are created for nearly every opportunity you can think of. You can buy the S&P 500 index or specific sectors such as oil, technology, health care, or banking. There's also real estate, emerging markets, solar energy, commodities, and more. If you can imagine it, there's probably a mutual fund for it. Regardless of your choice, one small investment instantly allows you to hold a large, well-diversified portfolio.

Another benefit of mutual funds is that they have low minimum requirements. Depending on the fund, you may be able to start a position with as little as \$500 and subsequent purchases of \$100. Most allow you to have money automatically deducted from your checking account and invested each week, month, and quarter. It's a great way to ensure you stick with your plan.

## LEVERAGED FUNDS

Some mutual fund companies offer *leveraged funds*<sup>13</sup> that create double or triple the returns of a particular index, which are called 2X and 3X funds, respectively. For example, if you buy an S&P 500 2X fund and the index is up 10 percent, you'll earn twice that, or 20 percent. If you bought the 3X fund, you'd be up 30 percent. Leverage, of course, is a double-edged sword. It magnifies your gains and your losses. If the index is down 10 percent, you'd be down 20 percent or 30 percent, respectively, in the leveraged funds.

## INVERSE FUNDS

If a company offers leveraged funds, they'll also create *inverse funds*,<sup>14</sup> which move in the opposite direction of the stocks held in the fund. For instance, if you have an S&P 500 inverse fund, you'll be up 10 percent if the index is down 10 percent. Inverse funds allow you to take bearish exposures on the market. In other words, you can make money if market prices are falling. Inverse funds are a great tool for some types of accounts, such as many retirement accounts that may not allow you to take bearish positions. Even though there's a long-term upward bias to the market, bearish positions can be an important hedge for long-term investors. Inverse funds are an easy way to hedge price risk.

In case you're wondering why the falling market is described as bearish, it's because bears attack by swiping *downward*, and a rising market is described as bullish because a bull charges ahead with its razor-sharp horns thrusting upward. Keep that in mind if you're on their menu.

## OPEN-END FUNDS

Mutual funds come in two basic flavors: open-end and closed-end.<sup>15</sup> Most of the mutual funds you'll be introduced to will be open-end funds. If you buy funds from any of the well-known companies such as Fidelity, Janus, John Hancock, Vanguard, and T. Rowe Price, you can be sure they're open-end funds. With open-ends, it means the fund doesn't have a fixed number of shares floating around the open market like shares of stock. Instead, the fund creates or destroys shares as needed to mathematically reflect the fund's full net asset value. Because there's not a fixed number of shares, open-end funds are always liquid; you'll always have a buyer if you want to sell. You can think of open-end funds as private funds. They don't trade on an exchange. In other words, if you wish to buy shares of a Vanguard fund, you must buy it through Vanguard rather than through the New York Stock Exchange.

A caller from my radio show called in at around 8:30 a.m. and saw the Dow Jones futures was down around 450+ points and plummeting. He

did not want to lose any more money. I had to say that unfortunately he was stuck and had to ride it out till 4:00 p.m. Most open-end funds only trade one time per day, which is when the market closes at 4:00 p.m. ET. At that time, the Net Asset Value (NAV)<sup>16</sup> is calculated, which is just the fund's assets (value of all the shares at the closing bell) minus liabilities (such as expenses, salaries, and other operational expenses) divided by the outstanding shares. Everyone who wants to buy or sell shares of the fund on that day gets the same price, the NAV. A few funds calculate the NAV twice per day, so they will have an afternoon NAV and an evening NAV. This just allows for a little more flexibility if you wish to sell your shares in the afternoon. Because investors never know the NAV until it's calculated later that evening, they must always buy in dollars and sell in shares. For example, you might place an order to buy \$1,000 worth of the fund, but you won't know how many shares you purchased until the NAV is calculated that evening. However, if you wish to sell, your order must be for a certain number of shares—let's say 75 shares, for example—and you won't know how many dollars you received until the new NAV is calculated that evening.

It may sound like it's a risky proposition to buy or sell open-ended mutual funds since you're not 100 percent sure of the prices at the time you're placing orders. However, because they hold shares of many different companies, mutual fund prices generally don't rise or fall too much from day to day. Investors are concerned with long-term results and not the small day-to-day fluctuations, so the small discrepancies aren't a big concern.

## LOAD FUNDS

Most open-end mutual funds today are no-load funds. However, in the 1920s when mutual funds were on the cutting edge of investing, all companies would charge hefty fees, called loads, for buying shares. This fee was to compensate the brokers for their time and expertise. The clients, in other words, were paying their commissions. Load funds come in two varieties: front load and back load.<sup>17</sup>

With a front-load fund, also called Class A shares, you must pay to acquire shares. For instance, if the fund charges a 5 percent front load, it means you're paying \$500 per \$10,000 invested. If you deposit a \$10,000 check to invest in the fund, only \$9,500 gets invested, which means the fund must rise over 5 percent before you'll break even. The maximum front-load charge is 8.5 percent.

Back-load funds, or Class B shares, are just the opposite. Here, you don't pay a fee up front to acquire shares, but you'll pay a fee to sell your shares and may not even be made aware of it. As Gomer Pyle would say, "Surprise, surprise, surprise." When it comes to load funds, you either pay now or pay later. Some load funds charge the back load based on the value of your initial investment. For example, let's say the fund charges a 5 percent back load and you invest \$10,000. You'll pay \$500 when you sell your shares regardless of their value. However, most charge a fee based on the current market value of your position. This can be especially troubling over decades of investing. For instance, you may invest \$10,000, but find it's worth over a million dollars when you sell. That same 5 percent back-load fund will now charge you \$50,000 to sell.

Some back-load funds use a sliding scale over 5 to 10 years, also called a contingent deferred sales charge (CDSC)<sup>18</sup>. They may charge a 5 percent back load after the first year, 4 percent after the second, and so on until they charge no fee after five years. Today, you can almost always find no-load funds that accomplish the same goals as load funds. Many investors feel that load funds must be better because of the premium charges. It's not true. They're really dinosaurs left over from the early days of mutual fund trading, and with very few exceptions, there's never a reason to buy a load fund.

## NO-LOAD FUNDS

By now, you've probably guessed that no-load funds have no charges up front or on the back end. However, all mutual funds, even load funds, have annual operating expenses (AOEs), which are built into the fund's

performance. I'll talk more about the significance and dangers of these in Chapter 6. For now, just understand that all mutual funds have some type of expenses associated with them, even if your advisor says they're no-loads and commission free. No fund operates for free, but unless you know where to look, it can be nearly impossible to determine just how much you're being charged.

## CLOSED-END FUNDS

Closed-end funds are more like shares of stock than mutual funds. They trade on an exchange, and their prices will fluctuate continuously throughout the trading day, just like shares of stock. With the same speed and ease of buying shares of IBM, you can buy a closed-end fund.<sup>19</sup> The main difference with these funds, compared to open-end funds, is that they have a fixed number of shares outstanding issued during an IPO, again, just like shares of stock. After that initial cash is raised, the fund generally no longer accepts new investors; it's closed. However, a closed-end fund may offer new shares, but usually requires shareholder approval.

The advantage of closed-end funds is that the fund manager doesn't need to keep a lot of cash on hand or sell many shares unexpectedly to meet redemptions. Instead, once the fund raises money from the IPO, that's all it ever sees. If you wish to buy or sell shares of the fund, you can only do so on the secondary market, or stock exchange, so the fund's value is determined by the forces of supply and demand, not by the NAV. If there are more sellers than buyers, you'll see the fund trade at a discount from its NAV. For instance, perhaps the fund holds shares worth \$30 per share, but you can buy it for \$27. On the other hand, if there are more buyers than sellers, it will trade at a premium. That \$30 fund may trade for \$32. In other words, unlike open-end funds, closed-end funds don't create or destroy shares to keep the NAV where it mathematically belongs, so its value can fluctuate above and below the NAV.

Many times, closed-end funds trade at a discount, sometimes a substantial one. This leads many advisors to think clients are better off with

discounted closed-end funds because it seems like they're getting a bargain. On the surface, it appears that way. If the fund's NAV is \$30 and you can buy it for \$25, you have two ways to profit. First, the fund can appreciate. Second, its discount can shrink. However, many closed-end funds use leverage (borrowed money to make investments) and they can also have high fees. Because the fund never receives new money from investors, the high fees can keep them trading at deep discounts for a long time. There is no free money in the markets. Make your mutual fund purchases based on your outlook and needs, not because it's a closed-end fund trading at a discount.

## MUTUAL FUNDS AND TAXES

Mutual funds are a completely different animal when it comes to taxes. If you recall that buying a mutual fund is like buying into a private investor's portfolio, it'll make more sense. During the year, the fund managers buy and sell securities based on the fund's objectives, stock price valuations, and other criteria. However, because all shareholders are in the fund together, the capital gains and dividends are passed through to investors, usually at the end of the year. That means you'll most likely end up paying some type of tax on your mutual funds. That's true even if you never sell your shares, or if you're having capital gains and dividends reinvested, or even if the fund reports losses for the year. If distributions are made, you'll owe taxes. As an investor, it's not a good idea to buy a fund just before distributions are made, which is usually in December.

In a sense, the fund manager is acting on your behalf, and you're responsible for your portion of the taxes on any capital gains or dividends. So, one of the drawbacks to mutual funds is that you lose control over when to trigger capital gains<sup>20</sup> and losses. The good news is that the calculations are easy. The fund reports capital gains and dividends to you at year-end on IRS Form 1099-DIV. However, just because there will likely be some type of capital gains tax owed at the end of each year doesn't necessarily mean they'll be short term. Most mutual funds strive for long-

term capital gains, so most of the sales will be long term. In addition to these internal distributions by the fund, there's another way you can incur taxes.

Investors often move money from one fund to another. For example, perhaps you invested \$10,000 into the Mutant Money Fund, which is now worth \$15,000. You decide to transfer the entire amount to the Prodigious Profits Fund. The mutual fund company offers to "switch" the money from one fund to another at no cost. However, technically speaking, you sold Mutant Money for a \$5,000 capital gain, on which you'd owe taxes, and purchased Prodigious Profits on a new cost basis. This catches many investors off guard as they may switch prior to holding for one year and not realize they just triggered a short-term capital gain. Holding for long-term capital gains is essential for long-term financial planning.

Mutual fund dividends are taxed much like other investments. Most of the dividends will be classified as ordinary income, so you'll be taxed at your marginal tax rate. However, some dividends will be "qualified," which means they're taxed at the lower capital gains rates. To qualify, the fund must have held the shares for at least 60 days within a 121-day period beginning 60 days prior to the ex-dividend date. Bear in mind it's how long the fund has held the shares, and not how long you've held the fund. If you're ever in doubt about any financial transaction, even something as simple as switching to a different mutual fund, it pays to speak to a financial advisor.

## EXCHANGE-TRADED FUNDS (ETFs)

As investors' needs change, so do investments. In 1993, the mutual fund world was transformed when the first exchange-traded fund (ETF) began trading. An ETF<sup>21</sup> is similar to a mutual fund, regular or closed-end, because it holds shares of different companies and can cover many indexes and sectors. Key differences exist, however.

First, ETFs are also not allowed to issue debt or preferred shares to create leverage. Second, ETFs are more transparent, which means investors

always know which shares the fund holds. ETFs must publish the full portfolio on their website every single day. Mutual funds, on the other hand, disclose their portfolios quarterly, but even then, it's for the previous 30 days. The danger is that mutual fund managers can stray from the fund's intended goals, which is called "style drift," so if you happen to purchase shares in between reporting periods, you're never 100 percent sure of the shares it's holding.

The most popular ETF is the SPDR (pronounced "spider"), which stands for S&P Depository Receipt<sup>22</sup> and trades under the ticker SPY. It began trading in 1993 and now has volumes ranging between 100 million and 400 million per day, making it one of the most liquid assets in the world. With one single purchase of SPY, you instantly own the 500 different companies in the S&P 500 index.

Another benefit of ETFs is the expense ratio, which is the fee deducted from the fund's assets to help with running and managing the fund. It's not a fee that you physically pay to the fund, but it comes out of the fund's performance, which means you're indirectly paying for it. The expense ratios are usually a fraction of those charged by mutual funds. The SPY expense ratio is 0.0945 percent, so a \$10,000 investment will cost \$9.45 per year, which is significantly less than the 0.74 percent rate charged by most indexed mutual funds. It all adds up.

## ETFs AND TAXES

As with any investment, you'll pay taxes on capital gains. If you buy the shares for \$30 and sell for \$35, you'll owe taxes on the \$5 capital gain. Perhaps the biggest benefit with ETFs is the way internal capital gains are distributed. ETFs are more tax efficient than other mutual funds, partly because about 90 percent of all ETFs are index funds, which means they're passively managed. In other words, you're not paying for the expertise of a money manager to buy and sell securities in an attempt to beat the market. However, there's a bigger reason ETFs are more tax efficient.

Regular mutual funds and closed-end funds distribute capital gains to investors at year-end, which means you lose control over triggering capital gains or losses. ETFs are different. They're set up as trusts and have a unique redemption process. When you sell shares of an ETF, the fund can swap assets. By exchanging assets, it's not a taxable event. It's rare for an ETF to distribute capital gains. However, any dividends or interest paid by the funds will get passed to investors just as with mutual funds, and the tax treatment is the same. If you like the idea of a mutual fund that trades on an exchange but is far more tax efficient, ETFs are a hard choice to beat.

## BONDS

Bonds are on the opposite end of the investment spectrum from shares of stock or mutual funds. Common shares have price risk, which means you may end up with less money than what you invested. Bonds work the opposite way. They're contractual agreements between the issuer and investor, and you'll receive a steady stream of fixed payments, usually every six months, plus your initial investment back at maturity. When you buy common shares, you're buying equity in the company. When you buy a bond, you're making a loan to the company. You can think of a bond as an IOU issued by the government or a corporation. You give them money today, and they guarantee the return of that money, plus interest, in the future.

Like most financial assets, bonds come in a variety of flavors. Government bonds are truly guaranteed since Uncle Sam has the power to raise taxes, or, at the very least, print money to make good on its obligations. Technically, government bonds are classified as bills, notes, or bonds depending on the time to maturity. Bills mature in 1 year, notes mature in 2 to 10 years, and bonds mature between 10 and 30 years. Aside from the time to maturity, the basic idea is the same.

However, you can also buy corporate bonds, such as those issued by Microsoft or General Electric. Because corporations cannot tax people or

print money, they're usually not guaranteed, but still considered highly secure. However, corporate bonds may also be insured by an outside insurance company, which would then make them guaranteed. You can also buy non-investment-grade bonds, called junk bonds, which are bonds in default, or close to default. If the company makes good on these bonds, the payoffs can be tremendous, but most of the time you're just throwing your money away, so they have little room for long-term financial planning.

Ratings agencies<sup>23</sup> such as Standard & Poor's, Moody's,<sup>24</sup> and Fitch<sup>25</sup> provide bond rating tiers to let investors know the degree of a company's creditworthiness. Conceptually, these are like FICO scores for consumer credit ratings.

Because all investment-grade bonds are either guaranteed or near-guaranteed, you won't get large returns on your money. That's just part of the risk-reward trade-off. In early 2018, one-year government bonds were paying a paltry 2 percent, hardly enough to cover the cost of inflation. Bonds are therefore usually used in the latter years of financial planning when it's more important to secure the money you have rather than trying to increase the portfolio's value and possibly lose a lot.

Bonds are issued with different due dates, called the *maturity*, which can range anywhere between 10 and 30 years, although in mid-2017, the U.S. government was mulling over the idea of issuing 50- and 100-year bonds to take advantage of today's low interest rates. However, that doesn't mean you must invest for a minimum of 10 years. As time passes, the maturity date gets closer. For example, one year later, the 10-year bond will only have nine years to maturity, then eight, then seven, and so on. In an active market with many bond issuers, you can always find a bond with a short-term maturity date.

Bond payments, called the coupons and the interest rate, are bound by a contract, called the bond's indenture. If a bond is issued as a 4 percent bond, that rate never changes. Whether market interest rates move up or down, the bond's interest rate won't change; much like a home's fixed-rate mortgage won't change with changes in interest rates. It's locked in according to the contract. As a general rule, the longer the time to maturity, the greater the bond's interest rate.

Bonds are usually sold in \$1,000 increments, which are called the *face value*, *par value*, or *maturity value*. If you hold the bond all the way to maturity, you're guaranteed to receive all the interest payments plus the face value back at maturity. For example, let's say you buy \$10,000 worth of a 10-year, 4 percent bond. You'll receive \$400 per year, or \$200 every six months. At the end of 10 years, you'll receive your final coupon payment along with your \$10,000 investment.

However, even though bonds are sold as highly secure investments, understand that comes with one big caveat—you must hold the bond all the way to maturity. If you sell your bond prior to maturity, you're subject to price risk, just as you are with shares of stock. If you buy a 10-year, 4 percent bond today for \$10,000, its price will change between today and the maturity date. Why?

As interest rates change in the market, so will bond prices. Specifically, bond prices move inversely to interest rates, which means as interest rates rise, bond prices fall; when interest rates fall, bond prices rise. To see why, let's say that after you buy this 10-year, 4 percent bond, interest rates rise to 5 percent at the end of the first year. All new bonds will now be paying 5 percent. No investor wants your 4 percent bond when 5 percent bonds are available. How can you make your 4 percent bond more attractive to potential buyers?

You must lower the price.

As the bond's price drops, it will trade at a discount to the \$10,000 par value.

I'll run through some examples, but don't worry about the math. Any financial calculator or advisor can show what your bond's value would be under certain interest rates. The concept is what's important. For instance, if interest rates rise to 5 percent after one year, your bond's price falls to \$9,282. If you hold your bond to maturity (another nine years), you're guaranteed to receive the \$10,000 face value. If you must sell it today, you're only going to get \$9,282, which is a 7 percent capital loss on your investment. Again, even though the bond is "guaranteed" to return your \$10,000 investment, that's assuming you're holding it to maturity. By selling the bond at a discount, it mathematically makes your 4 percent

bond trade at an effective 5 percent interest rate, which is called the *yield to maturity*. If another investor buys your bond for \$9,282, it's mathematically the same as buying a new 5 percent bond selling for \$10,000. Now you can see why bond prices fall when interest rates rise. By selling your bond at a lower price, it compensates the new buyer for the smaller coupon payments. In the financial markets, price equalizes all bonds (of the same investment grade) to trade at the same effective interest rate.

Of course, interest rates could fall. If rates fall to 3 percent after one year, your bond's market price rises to about \$10,784, and is trading for an 8 percent premium over par. As before, if you hold your bond to maturity, you'll only receive \$10,000. It sounds like you're better off selling the bond to capture the nice gain, but that's not necessarily true. If you still want to invest in bonds, you're only going to receive 3 percent coupon payments with new bonds, not the 4 percent payments you're receiving now.

If another investor pays \$10,784 for your bond, he's effectively receiving 3 percent on his money, even though he's receiving 4 percent coupon payments. The higher bond price has equalized the 4 percent bond to behave like a 3 percent bond. When shopping for bonds, don't worry about the interest rate it pays, as they're all the same once the market price is factored in. Instead, focus on the investment grade and time to maturity that suits your needs.

## BONDS AND TAXES

As a general rule, bond taxation is fairly straightforward. Any interest is taxed as ordinary income in the year received, so it is subject to being taxed at your marginal tax rate. You may also have capital gains or losses, depending on whether you sold your bond for a profit or a loss in the open market.

## ZERO-COUPON BONDS

There's one more type of bond we need to cover, as it belongs in a category all its own, zero-coupon bonds,<sup>26</sup> or "zeros" for short. You guessed it. They make no periodic coupon payments. Instead, they trade at a deep discount to the face value, and you receive the full value at maturity. The difference between your purchase price and face value is effectively your interest. For example, if interest rates are 4 percent, you could buy a \$10,000 face, 10-year, zero-coupon for about \$6,756. You won't receive a single penny in interest payments for 10 years, but will collect the \$10,000 face value at maturity, effectively receiving the \$3,244 difference as interest. Over 10 years, that return on your money turns out to be exactly 4 percent. One of the benefits of zero-coupon bonds is that your money compounds at the coupon rate, which is 4 percent in this example. If you bought regular bonds, you may not be able to invest your proceeds each year at 4 percent, which creates an interest-rate risk. If you know that 4 percent allows you to reach your goals, zero-coupon bonds not only guarantee the return of your money, but they guarantee it to be returned at that stated rate.

However, some investors are drawn to zeros because they seem like they're making a lot of money. Something just feels good about paying \$6,756 today and receiving a guaranteed \$10,000 in 10 years. Remember, though, the bond's price factors in all benefits. It's still a 4 percent return on your money no matter how good it looks.

Zeros are primarily issued by the government, but they can also be issued by corporations. Most government zeros are issued with maturities of 10 to 15 years. Zeros are nice investments for many situations. First, if you have a set goal in mind—saving for your daughter's or son's college fund, for instance—zeros allow you to put a relatively small amount of money down today, but realize a guaranteed amount in the future.

Second, they can be great tools for gifting money to children. You can gift a much smaller amount today, but ensure it grows to a much larger value in the future and avoid the associated tax.

The two biggest risks with zeros are default risk (except for government zeros) and price risk. Corporate zeros usually pay higher interest rates, which can also be a positive attribute. However, it's also a reflection of the greater risk since the company gets the money today and never makes a single interest payment, possibly for decades. If the company isn't financially responsible and setting money aside to pay these future obligations, it's easier for zeros to go into default. As a result, corporations usually pay higher interest rates to entice investors to accept the risk.

## ZERO-COUPON BONDS AND TAXES

Even though you'll never receive interest payments while holding your zero-coupon bond, the IRS says you're "earning" that interest each year, which is called phantom interest. Of course, that means Uncle Sam wants his share every year, and you may be subjected to federal, state, and local income taxes, even though you never received any money. Here are the basics of how it works. If you paid \$6,756 for your 10-year zero at 4 percent, you're earning at the rate of 4 percent per year. Therefore, after the first year, you'll be taxed on 4 percent of \$6,756, or \$270.24. However, your cost basis increases by the amount of taxes you paid. Therefore, in the second year, your new cost basis rises to \$6,756 + \$270.24, or \$7,026.24. Therefore, the following year, you'll be taxed on 4 percent of \$7,026.24, or \$281.05. Each year, your "interest" gets tacked onto the previous cost basis, a new cost basis is created, and so is a new tax. The good news is that, at maturity, you'll owe no taxes when you collect the money.

Naturally, these taxes can be avoided when zeros are placed in an IRA or other tax-advantaged account. There are also some tax-exempt zero-coupon bonds, which will also avoid the phantom income tax.

## PREFERRED STOCK

All publicly traded companies have a pecking order in which they must pay investors in case of bankruptcy. The first to get paid are the bondholders, but also included are debts such as office mortgages, company leases, and other direct expenses. If any money remains, preferred shareholders are paid next. The last to get their money are the common stock holders.

It may seem that preferred shares,<sup>27</sup> or preferreds, are better than common shares, since you'll have priority should a bankruptcy result. However, preferred shares are a hybrid of common shares and bonds. With preferreds, you don't participate in the corporate earnings, so when you hear Wall Street saying things like, "Shares of Apple Computer have doubled over the past year," they're talking about the common shares, never the preferred shares. With preferred shares, you'll get dividends, which are usually paid quarterly, but that's it. Dividend payments on preferreds aren't required like they are for the bondholders. Instead, they just have a priority over the common shares. But if the company makes a dividend payment, it must pay dividends to all preferred shareholders first before making them to the common shareholders. It's only in this sense that these shares are "preferred" to the common shares.

Bonds are normally issued at \$1,000 face values, but preferreds are normally issued at \$25. If the company pays a \$2 dividend, the yield is \$2 divided by \$25, which equals 8 percent. Remember, however, that the dividend is always listed at the annual rate. If it pays \$2 in dividends, it means 50 cents per quarter. If you own 1,000 shares, you'll receive 1,000 shares multiplied by 50 cents, or \$500 each quarter. Just as with bonds, this \$2 annual payment never changes, as it's part of the preferred stock's contract. Instead, if market interest rates change, you'll see the preferred stock's price change in response. For example, if rates fall to 7 percent, you'd see the preferred stock's price rise from \$25 to \$28.57 since \$2 divided by \$28.57 equals 7 percent.

If rates rise to 9 percent, the preferred stock's price will fall to \$22.22 since \$2 divided by \$22.22 gives investors a return of 9 percent. Just as

for bonds and zero-coupon bonds, preferred share prices are sensitive to interest rates and move in the opposite direction: when rates are up, prices go down, and when rates are down, the prices go up.

## CUMULATIVE VERSUS NON-CUMULATIVE

Investors can buy two different types of preferred shares, *cumulative* and *non-cumulative*. Cumulative preferreds have priority over non-cumulative. If the company misses any cumulative dividends, it must make up all past payments before any payments can be made to non-cumulative holders.

As an example, your best friend went to broker A and bought \$100,000 worth of XYZ preferred, with an 8 percent dividend or a potential \$2,000 every three months or \$8,000 a year, but you went to broker B and bought \$100,000 worth of XYZ at 6 percent, so you realized \$1,500 per quarter or a total of \$6,000 a year. Yep, the same company. The first three quarters, *neither* of you received a dividend, yet in the fourth quarter your friend received \$2,000 for the year and you received \$6,000. Confused? At first glance, you're ticked off and ready to fire your advisor. I mean, you were getting \$2,000 less a year than your friend. So why the difference? Because your friend's preferred was a non-cumulative, meaning he does not get all the missed quarters as you did. Yours was a cumulative preferred. So getting a second opinion is helpful for many, as having a keen eye for details may help improve your income.

However, all preferred shares, cumulative or non-cumulative, always take a back seat to bonds. If you're comparing yields on preferred shares, be sure you're comparing apples to apples.

## CONVERTIBLE PREFERRED STOCK

Preferred shares are like a hybrid between common stock and bonds. They are shares of stock, but their prices act more like a bond. However, you can also get more exposure to common shares of stock by using *convertible*

*preferred*<sup>28</sup> stocks. With these, you can exchange your preferred shares after a specific date for a predetermined number of common shares.

For example, assume the conversion ratio is four. This simply means the investor can exchange the preferred shares for four shares of common. Assume you purchase preferred shares for \$100 and the common stock is trading for \$20. If you wish to convert to common shares, you would receive four shares worth \$20 each, for a total value of \$80. In this case, it would not be beneficial to convert since you paid \$100 for the preferred stock and exchanged it for something worth \$80.

There is a price at which it would be advantageous to convert, which is called the *conversion price*. Just divide your preferred purchase price by the conversion ratio. In this example, \$100 divided by 4 equals \$25. If the common shares are trading for any price greater than \$25, it's advantageous to convert. Otherwise, continue to hold the convertible preferred and enjoy the dividends. However, even if the stock's price hasn't reached the conversion price, as long as it's moving close, the convertible preferred stock's price will climb, too. Convertible preferreds are a way to earn steady dividends, but also participate in company earnings. However, as with all financial assets, nothing comes for free, and you must pay for any advantage. The drawback to convertible preferreds is they'll be far more expensive than regular preferred shares. If you're ever looking for the steady income of bonds along with the ability to participate in the company's earnings, convertible preferreds are a great solution.

## PREFERRED STOCK AND TAXES

The dividends on preferred shares act like bond interest payments. However, these dividends are considered "qualified dividends," which means they're taxed at long-term capital gains rates, far lower than ordinary income tax rates. For 2018, the bottom two tax brackets (10 percent and lower 12 percent) pay no tax. The next five brackets (upper 12 percent, 22 percent, 24 percent, 32 percent, and 35 percent) pay 15 percent, and

the highest 35 percent and 37 percent pay 20 percent. Recall that regular bond dividend payments are taxed as ordinary income and don't receive the same favorable treatment.

However, to receive the favorable tax rates, the IRS usually requires investors to hold preferred shares for more than 90 days during a 181-day period that begins 90 days before the next dividend date. Sound confusing? Just ask any of your three blind mice, and you'll likely get three different answers. Financial planning isn't just about finances. It's about understanding the legalities of it. If you're looking for an asset that behaves like a bond and gets favorable tax treatment, preferred shares may be your answer.

## REAL ESTATE INVESTMENT TRUSTS (REITS)<sup>29</sup>

What portfolio would be complete without real estate? For decades, it's been responsible for much of the wealth created around the world. Can you remember when you bought your first home? Do you remember the feeling and worries? I sure can. Like anything new, it has a package of unknowns. I purchased my first house in 1984 at the age of 25. It was a charming small duplex in Ocean Gate, New Jersey, a cute little town. My \$41,500 became a reality from many sleepless nights as I went to bed before we closed asking myself if I could do it, if I could afford it, and wondering what I would do if the rates kept going up or if my business did poorly. All kinds of doubts and fears were dancing around in my head. Though excited and scared at the same time, I'm glad my dad was there to coach me. I created a pacifier mantra, which for me was a godsend as I sang to myself *The Wizard of Oz* theme ("Lions, Tigers, and Bears, O my"). My version was, "Mortgage, Taxes, and Insurance \$528, add a renter (\$225), and I won't be late. Only \$303 and that's for me." As I fell asleep, yes, many times I awoke thinking: "What if they don't pay?" As I put the pacifier back in, I fell asleep.

This was the start of my wonderful real estate venture. Purchasing many houses, apartment buildings, and, yes, designing my own sub-

division development—today it's called Todd Road Estates in Toms River, New Jersey. OK, I was a little vain at 28; I really wanted my own family street name, McLean Court, and one for Pop-Pop I named "Winston Court." But I can say every venture my wife and I did was calculated and I sought advice. Yes, apprehensive—OK, scared—but excited as well.

There was a problem—not only was it a ton of work and time consuming, but it could be risky and expensive. And we did make lots of mistakes, I can promise you that. So unless you have an iron stomach and high risk tolerance at your age then perhaps go for it!

However, the financial markets created a solution with Real Estate Investment Trusts, or REITs (pronounced REETS). The idea is the same as a mutual fund, but rather than holding shares of stock, the fund holds real estate. REITs fall into three basic categories: equity, mortgage, and hybrids. Equity REITs, sometimes called EREITs, buy actual properties such as homes, office complexes, apartment buildings, hotels, resort properties, and other similar investments. Mortgage REITs, or MREITs, make money by purchasing and selling mortgages and earning interest much as a bank would. If you want a combination of the two, you can buy hybrid REITs.

Like mutual funds, REITs can be open-end or closed-end. Like all closed-end funds, more shares may be issued but generally require shareholder approval. REITs offer investors the benefit of a diversified portfolio of real estate. They also offer high yields, mostly due to special tax considerations.

However, it's not easy to qualify as a REIT, as it must pass many strict tests:

1. Must be structured as a corporation with fully transferable shares.
2. Must have at least 100 shareholders and must have less than 50 percent of the outstanding shares concentrated in the hands of five or fewer shareholders during the last half of each taxable year.

3. Must distribute at least 90 percent of its annual taxable income, excluding capital gains, as dividends to its shareholders.
4. Must have at least 75 percent of its assets invested in real estate, mortgage loans, and shares in other REITs, cash, or government securities.
5. Must derive at least 75 percent of its gross income from rents, mortgage interest, or gains from the sale of real property. And at least 95 percent must come from these sources, together with dividends, interest, and gains from securities sales.
6. Cannot have more than 20 percent of its assets consist of stocks in taxable REIT subsidiaries.
7. Less than 30 percent of the gross income can come from the sale of real property held for less than four years.

Many investment advisors say that home ownership gives most people adequate exposure to real estate. However, it's undiversified. Your home is one type of real estate in one specific area. To get proper exposure and diversification, you need to own homes, rental complexes, office space, warehouses, and hotels across the country. What is the current real estate market like in your city? Almost every major city has experienced real estate booms and busts, but rarely has the entire nation gone bust. To get adequate returns from real estate, you must be adequately diversified, and REITS are a simple yet effective way to do that. In one second, you can own multimillion-dollar properties across the United States. However, expense ratios can vary dramatically for REITs, so be sure you understand just how much you're paying to participate in the fund.

## REITS AND TAXES

As with most investments, you'll be taxed on any capital gains when you sell your shares. As for dividends, REITs distribute at least 90 percent of

their income as dividends to investors. Like most dividends, they may be qualified or non-qualified. If qualified, investors are taxed at the more favorable capital gains rates. If non-qualified, they're taxed at their marginal tax rate. In some cases, the REIT may pay some portions that qualify as a nontaxable return of capital, which can reduce your taxable income. However, because REITs distribute gains from real estate properties, the dividends tend to be high, so be careful about using REITs in taxable accounts, as the income tax rates for dividends are usually higher than those for capital gains.

### **MOUSETRAP #1: YOU CAN'T BE BLIND AS A BAT**

Many investment advisors are paid commissions based on the products they sell, and this can create a conflict of interest. Stock commissions pay well, load funds pay better, and variable annuities pay among the best. It shouldn't be a surprise that you're going to be led to the most expensive products, even if they're not the best for your needs. You must understand the various types of investment choices, and if there are cheaper alternatives. For instance, you can find load funds that track the S&P 500 index, but some, such as the Vanguard S&P 500 ETF, charge a fee of just 0.04 percent. That's only \$4 per year for every \$10,000 invested. On the other hand, there are about 17 mutual funds that track the same index, but charge loads as much as 5.75 percent, just to buy the shares. That's \$575 just to get in. Then they'll hit you with expense ratios topping 0.6 percent every year. It's the same index, so there's no reason to pay a higher fee to track the same index. In Chapter 6, you'll see just how dramatic of an effect this has over years of investing.

Using a load fund with high expenses is like trying to drive your car uphill with the parking brake on. It's a huge drag on your performance, and there's no reason in the world to use a fund like this. But you'd need to know what to look for, or ask about it, as the broker

isn't going to point out cheaper versions. That 5.75 percent is his commission.

One of the best ways to avoid these conflicts is to use a fee-only advisor with fixed assets under management<sup>30</sup> (AUM). It's a relatively low price to pay for sound advice, and the advisor will offer no-load funds and other low-cost alternatives.

Product complexity and commissions aren't the only problems. The bigger issue is with the Three Blind Mice. Few financial advisors fully understand how these products affect taxes or legal issues with trust accounts, wills, and estate planning. There's far too much for one person to know, which is why advisors, accountants, and attorneys act independently. Unless they're sharing this information, however, you're going to end up with less-than-optimal planning. Remember, three blind mice never pay the price.

The investments outlined in this chapter are intended to give you an overview of the various choices you'll most likely be using and the tax implications that may result. There's a lot to consider. Most financial advisors are only interested in getting you to buy and sell without regard to taxes. Few tax advisors understand financial planning, and accountants won't understand the legal issues. To get the most from your investments, you must have experts in each field working for you, and that means your advisor, accountant, and attorney must communicate. A financial plan without this three-way communication is a long-term trap.

**TIP:** Review your goals yearly.