# Creative

wealth maximization strategies*



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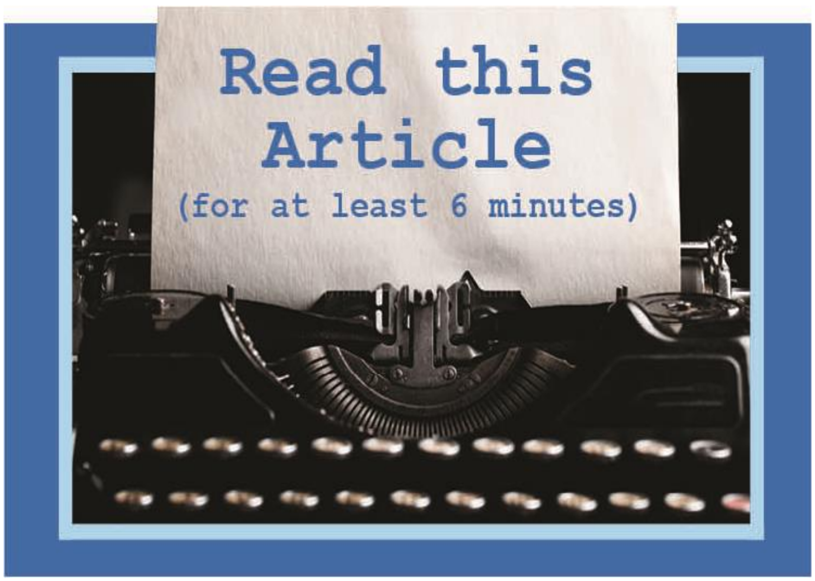



**You might be the outlier, but research shows there's a good chance you won't read this article much farther than the end of this sentence.** But you should.

Not because this article is particularly relevant to your current circumstances, or because it contains the one piece of information you need to become wealthy. It might, it might not. Rather, you should read this article because **reading – especially about personal finance – is a superior method for gaining financial wisdom.**

One of the awkward, unintended consequences of the Information Age is that everyone has so much information at their fingertips, in so many formats, that many of us hardly read anything. A recent compilation of surveys on American reading habits by Statistic Brain found 80 percent of American families did not buy a book in the last year. Another reported that 54 percent of all college graduates haven't read a book since their graduation.

One of the primary reasons people read less is the prevalence of **video**. Smartphone cameras and social media platforms make it possible for everyone to communicate visually, and **text** (the stuff you read) is often an afterthought. When text is an afterthought, there's often less thought altogether – less intelligence, less nuance, less consideration of opposing opinions.

Your reading this article isn't a cure-all for the demise in text, but it could be a start. And when it comes to personal finance, the benefits could be substantial.

### Text vs. Video – Two Very Different Mediums, Two Very Different Mental Processes

Studies repeatedly show that our brains respond in markedly different ways to information presented as text or video – even when the content is identical. And over time, repeatedly processing in either of these two modes can permanently shape how our brains function.

Liraz Margalit, PhD, identifies herself as a "web psychologist" who studies consumer online behavior for insights into how we make decisions. In a May 2015 *Psychology Today* article, Dr. Margalit discusses the significant differences in how we process text or video messages:

> When we **read**, the process requires us to be **actively involved**.
>
> The **brain** gets a much better **workout** when reading vs. watching, and the process requires a longer attention span and deeper cognitive efforts.

## In This Issue…

With video, the mental effort required is dramatically reduced. Almost like an intravenous drip, "Videos are processed by the brain 60,000 times faster than text." Since our brains are hardwired to find the easiest and quickest solutions, Dr. Margalit says our natural inclination to is select video over text.

If it were simply a matter of efficiently delivering easily digestible information, videos would seem to be the way to go. But there are other considerations. Because the mental processes we use to comprehend text and video are so different, the format often changes the message. And when it comes to financial information, these differences can be critical.

### Logical vs. Emotional Intelligence

In short, reading makes us smarter. In a January 2014 *Guardian* article, Dan Hurley reported that "Recent scientific studies have confirmed that reading and intelligence have a relationship so close as to be symbiotic."

Neurological studies show that reading activates several complex and inter-related mental processes. Text on a page is raw material that we must configure into ideas, images, and analogies to make the message real. This process of "imagining" words into life through reading has been shown to expand vocabulary, increase attention span, promote sequential thinking, and even make us more empathetic.

Watching video activates different areas in our brains. Through a physiological process Margalit calls the mirror-neuron mechanism, we ***feel*** the message more than we comprehend it. Consequently,

"Videos are also much better at seduction...it's much easier for us to become emotionally attached to something we watch in a video than something we read in an article."

**Video processing results in little or no analysis of the information. It's like you believe what they say without doing your own research.**

Susan Skakel, writing in a June 2015 article published at eruptingmind.com, says this "right-brain" processing of video "results in little or no analysis of the information. In other words, this is like someone telling you something and you believing what they say without doing your own research."

### Repetition Leads to Proficiency – In Either Format

Through a process called neuroplasticity, the brain can reorganize itself over time by forming new neural connections in response to the challenges it faces from injury, disease, or what we ask it to process. The more we process in one format – text or video – the more the brain adapts to using it for comprehension.

Going back to Hurley's comment about the connection between reading and intelligence, Carnegie Mellon scientists did a study based on a six-month, daily reading program. Before-and-after scans showed a dramatic increase in the participants' grey matter, the region of the brain that processes information. Reading acts like exercise for the brain, i.e., the more you read, the easier it becomes to process information and understand the world around you.

And it doesn't take a lot of reading to improve our text-processing skills. One study showed that benefits occurred in reading sessions as short as six minutes. (From this research, there's a reading-improvement program called "The Six-Minute Solution.")

Neuroplasticity occurs with videos as well. In fact, some research indicates extensive video consumption results in a passive receptivity of information that is close to hypnotism. Critical thinking decreases while the intensity of emotional responses multiplies.

### Text vs. Video in Financial Education

Given the previous information, you might think reading is a superior medium for instruction. That isn't necessarily the case. Studies show there are some things we learn better when we "feel them" through video. This is particularly true of physical skills (think gymnastics or dancing) or tasks (like repairing a car, building a house) that can be visually replicated.

Some financial information can be represented visually (think of a pie chart for asset allocation). But basic financial concepts like interest, rate of return, or risk management are abstract ideas. How can you "feel" them? This is where video, by its nature, can distort the message.

Video requires images. A frequent visual stand-in for abstract thought is a "talking head," a person speaking the idea to the viewer. Since our brains want to process video from an emotional perspective, these talking heads must appeal to our feelings. To connect with us, they must be attractive, or loud, or provocative. So, when a 30-second YouTube video summarizes a self-acclaimed financial guru's financial philosophy, are we persuaded by the *ideas* or the *personality*? That's a dilemma.

### How Do You Want to Make Your Financial Decisions?

On one hand, we have text (logical, conceptual, deep comprehension). On the other, there's video (quick, emotional, shallow). Which format should you use for financial information? Pointing to her research, Margalit says it depends on what the consumer is looking for, assistance or entertainment, escape or control.

"Research shows that when website visitors must make an important or consequential decision – such as purchasing insurance or financial products, for example – their more rational, detail-oriented modes are activated and they want to feel in control. In this case, text will provide businesses with a better outcome than video."

Think it's just a coincidence that Margalit would specifically mention insurance and financial products?

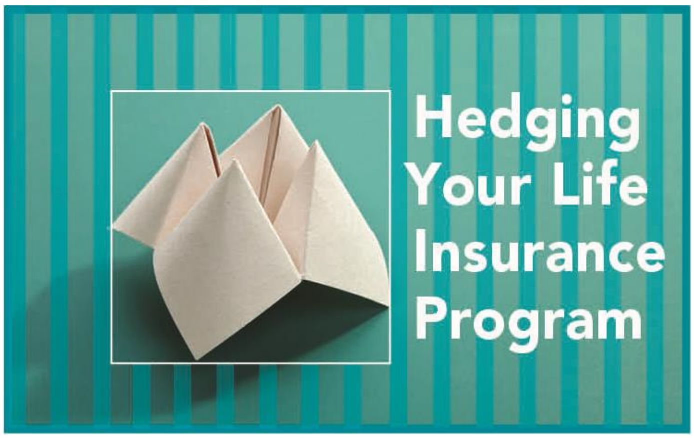
### This Newsletter Can Be Your Six-Minute Solution

Here's an ironic observation: Convincing you to read these articles might be more effective if the message came as a video. As Margalit says, "If you want them to fall in love with you, send a video." But even reading has a video element; you briefly "watch" an article when you decide to read it.

And some marketing experts will say it's almost immaterial whether the message is actually read, because each time you identify, skim or discard an article like this, it's a soft "touch," a non-threatening point of contact that reminds you of the sender's name and services. It's effective advertising, and if you happen to read the article, well, that's just gravy.

**Various studies have also shown that reading for periods as brief as six minutes can not only make you smarter, but lower blood pressure, reduce stress, fight depression, prevent or stave off Alzheimer's, even help you sleep better (and not simply because the material is boring).**

**If you're interested in these health benefits (think how much better you'll feel, right?), why not add another by reading material that could increase your financial wisdom? ❖**




Over a lifetime, you may encounter financial situations where circumstances don't align with opportunities; you don't have the resources or the timing isn't right. There's a house that would be perfect for your family, but you can't afford the mortgage. Or a business is for sale, but the money to buy it is stuck in your 401(k) – and you don't turn 59½ until next year.

With hindsight, you may reflect wistfully on these missed opportunities. It turns out the house was perfect, and that business would have been an ideal second career. Conversely, later developments might reveal you were fortunate to have missed that opportunity: Stretching to buy the perfect home could have meant bankruptcy after you lost your job, and new technologies dramatically reduce the profit potential of a VCR business.

But even when the timing and resources are right, the uncertainty of future outcomes challenges us, often making it seem that an impending financial decision is nothing more than a leap of faith. For example, there's a current mortgage lender advertisement that begins "*Mark and Alissa Anderson must really believe in themselves. Why else would they purchase a 30-year mortgage*?" There's nothing wrong with believing in yourself, but is that all they really can rely on? No. Smart consumers also look for ways to hedge their financial decisions.

## Hedging

Hedging strategies attempt to reduce the financial risk – of either suffering a loss or missing a gain – and are used by both institutions and consumers. There are multiple forms of hedges, but they all share a common structure: for a fee, one party guarantees some aspect of a transaction for the other party; a guaranteed interest rate, a guaranteed price, a guaranteed period, or some combination. Hedges increase the total cost of a transaction, but put boundaries on the risks.

For life insurance, consumers have several hedging options for circumstances where their current financial circumstances may not quite match their opportunities.

A **conversion privilege** or **guaranteed increase agreement** is an add-on to an existing life insurance policy which gives the policyowner the right (but not the obligation) to buy a specific amount of life insurance at a specified price within a fixed period, or on the occurrence of a specific event (i.e., the birth of a child).

With these agreements, a policyowner pays a small fee (relative to the current premium) to ensure the right to either change the format of coverage or purchase additional coverage at a later date. The fixed price for future purchases will be higher than the current price because of advancing age, but it is also guaranteed, regardless of other factors that might affect the actual price of life insurance in the future.

## Conversion Privileges – A Hedge for Permanent Life Insurance

As our financial lives unfold, it may become apparent that owning a permanent life insurance benefit, i.e., a benefit intended to be in force for the duration of one's life, would be desirable. A permanent life insurance policy could be used to fund an estate plan, offset long-term care expenses, supplement income, be a permission slip to spend other assets, etc.

Under ideal circumstances, consumers might buy permanent life insurance simply because the likelihood of dying is 100 percent, and a permanent policy would eventually result in a claim. But in real life, the premiums required to secure permanent life insurance may be presently unaffordable, particularly for consumers who are just beginning their financial lives. They may first need to reduce debt, build emergency reserves, or attend to other financial issues.


Term insurance, with its lower premiums, may solve immediate life insurance needs, but comes with an expiration date. When the term ends, the insured must either apply for new coverage, or forgo it. New coverage can be problematic: Because of advancing age, every new life insurance application has the certainty of higher premiums and the uncertainty of whether one is still healthy enough to be insured.

A conversion privilege hedges against this dilemma by guaranteeing the policyowner the option to exchange some or all of a term insurance benefit for a permanent policy without a reassessment of the insured's health. The cost of adding a conversion agreement to a term policy is a fraction of what it would cost to purchase permanent insurance right away. However, the premiums for the new permanent policy will reflect the age of the insured at the time of conversion – the longer you wait to convert, the higher the annual premium.

A conversion privilege is not only a hedge against expiring term, but against declining insurability, and the challenge of even higher premiums or an outright decline of future coverage.

### Guaranteed Increase Agreements – A Hedge for More Permanent Life Insurance

For those who already have some permanent life insurance, it might be desirable to have more at some point in the future. Guaranteed increase agreements allow a policyowner to purchase additional permanent life insurance at specific times or on the occurrence of specific events. Here's an example of a guaranteed increase rider for a healthy, non-tobacco-using, 35-year-old male, attached to an existing $1,000,000 whole life policy:

- A new policy with a face amount up to $250,000 may be purchased without underwriting on each option date.
- There are five option dates, which occur every three years, beginning at age 37 and ending at age 49.
- An option may be exercised early if the insured gets married, at the birth or adoption of a child or grandchild, purchases a home, enrolls a child in college or has an increase of 20% or more in annual compensation.
- The premium for this rider is payable for 14 years.

The projected annual premium for the $1 million policy is almost $13,000. The annual cost for this rider, which allows for an additional $1.25 million of whole life insurance to be purchased, is $270, and payable only during the 14 years when the options can be exercised. As a hedging strategy for future insurance purchases, $270/yr. provides some fairly substantial financial leverage.

### Exercising Your Hedging Options

These hedging concepts for life insurance options are relatively straightforward, but the details will vary by insurer. Some term policies have conversion privileges included in the base premium. But some "built-in" conversion privileges may not match the policy's term; a 20-year term policy may be convertible for only the first 5, unless a separate 20-year conversion agreement (with additional cost) is added. Likewise, Guaranteed Increase Agreements vary in the frequency, events, and ages that trigger the option to add coverage. You'll need the assistance of a life insurance professional to ensure these options match your circumstances.

Today, you may not have the resources or clarity to make the best decision about the ultimate configuration of your life insurance program. But your insurability might never be better. Conversion privileges and guaranteed increase riders can allow you to take advantage of your present good health to ensure options for the future, when both your objectives and circumstances may be better-defined.

### Does your life insurance program have hedging options? ❖

## When Should Your Internal Fiscal Year Begin and End?

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G[illegible] ear's resolu[illegible] seem like [illegible] nals, revie[illegible] not. The calendar year, from January 1 to December 31, may not be in sync with your internal fiscal year.

### Calendar Years, Tax Years, and Fiscal Years

Everyone understands the **calendar year** as January 1 to December 31. But for finances, there are other "years" as well.

- The IRS defines a **tax year** as a "twelve-month period used for the purposes of reporting income and paying taxes."
- The term "fiscal" applies to issues "relating to public revenues (taxation), public spending, debt, and finance." Thus, a **fiscal year** is a twelve-month period that a business or governmental entity uses for accounting purposes, particularly for the assessment of taxes. Which means a fiscal year is usually also a tax year.

In the United States, these non-calendar fiscal years can have their end at any quarter point of the calendar year, i.e., March 31, June 30, September 30. The US government operates on a fiscal year that begins on October 1 and ends on September 30. Seasonal businesses that experience highs and lows in sales and activity may decide to have their fiscal year be the end of the quarter after their busy seasons. A non-calendar fiscal year not only makes it easier for owners to assess performance through an entire business cycle, but can help with taxes because it may be the only time when the business is in a cash-positive position.

## When is the best time for you to conduct a financial review?

But not every US tax-reporting entity can have a fiscal year different than the calendar year. For individuals and many small businesses, the IRS requires their tax year to be from January 1 to December 31. This includes all sole proprietorships and LLCs that file a Schedule C.

### …And this affects me how?

One of the advantages of a non-calendar fiscal year is that it may facilitate better assessment and planning. For a variety of reasons, reviewing your financial situation on January 1 just because it matches your tax year might not be optimal. Instead, a business or individual may wish to maintain what is sometimes referred to as an "internal" fiscal year even though its tax year is tied to the calendar year. For example:

- A real estate partnership which bought a property on May 1 may want to track expenses and profits on an internal basis from May 1 to April 30 of each year, even though the partnership's tax year ends on December 31.
- A summer resort owner can better evaluate the health of the business in the fall, when seasonal revenues are in, and the slower off-season allows time for reflection and new initiatives.
- A CPA's internal fiscal year might end on April 30, after most tax returns have been prepared.
- An employee might use the timing of performance reviews, pay raises or bonuses to mark an internal fiscal year.
- Practically speaking, the fiscal year for parents of school-age children often begins when school starts, which could make summer a good time to end an internal fiscal year.

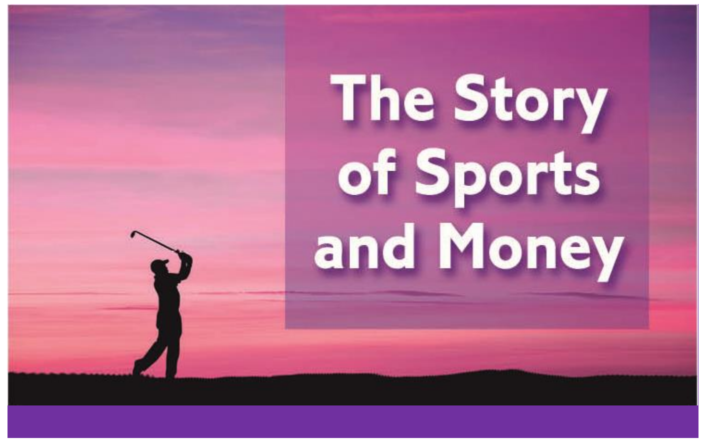
Think about all the other stuff that surrounds the changing of the calendar year. There are holidays, school vacations, social obligations, possible year-end responsibilities at your work, and the psychological hangover that follows all this activity. Is this the best time for you to conduct a financial review?

Deciding on an internal fiscal year different than the calendar year isn't going to eliminate any year-end decisions mandated by the IRS. But when you consider the ebb and flow of your financial life, you may realize there are other times when you are most receptive to reviewing your financial performance and projecting your financial future. ❖

### Here's an easy New Year's Resolution:


**Determine an internal fiscal year.**

**Then schedule reviews with your financial professionals accordingly.**




Matthew Futterman is the author of *"Players: The Story of Sports and Money and the Visionaries Who Fought to Create a Revolution."* His 2016 book is a history of the changes that saw professional athletes go from modestly paid employees of the 1950s who needed off-season jobs, to today's multi-millionaire entrepreneurs building their "brands" with endorsements, clothing lines and other enterprises.

So when Arnold Palmer, one of the first athlete-entrepreneurs, died in September 2016 at the age of 87, Futterman wrote a remembrance of the iconic golfer for the *Wall Street Journal*. Futterman began his essay with a question, then answered it:

**What do you think about when you think about Arnold Palmer?**

**This is what I think about: a measly life insurance policy that transformed the business of sports and made possible the flow of millions of dollars to modern athletes like Michael Jordan, Tiger Woods, and LeBron James.**

Here's the rest of the story:

In the winter of 1961, Arnold Palmer was a 31-year-old professional golfer who had won the Masters and U.S. Open the previous summer, and was just beginning to become a household name. Seven years previous, Palmer had signed (without legal counsel) what Futterman characterized as "an absurdly lopsided and exploitive" 10-year endorsement agreement with a sports equipment company. Now, in light of his performance and notoriety, Palmer wanted to renegotiate his contract, getting a larger percentage from the sale of balls and clubs that had his name on them. The sporting goods company agreed, but wanted to lock Palmer in for another 20 years. Palmer was okay with the length of the contract, but with a stipulation: He wanted a life insurance policy, and he wanted the company to pay for it. Futterman explains:

He was 31-years-old, with two daughters and a wife to think about, and he knew he couldn't stake his financial future on the paltry prize money available in golf in those days. Plus, he was well aware that few things were as impermanent as the career of a professional athlete. Sure, he was the defending Masters and U.S. Open champ, but the yips or a balky back could take it all away in a heartbeat.

Palmer wanted a benefit similar to those that corporations often give their key employees, an executive compensation agreement built around life insurance to provide a measure of financial security whether he lived, died or became disabled. Palmer felt he deserved such consideration because, while he might not be an executive, his involvement was a key component in the company's success.

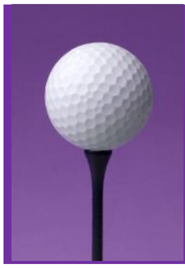
The annual premium for the policy was $880 – about $7,000 today – adjusted for inflation, and not a lot of money then or now. At today's rates, the premium would result in an insurance benefit of somewhere near $1 million, which is substantial, but not exorbitant.

Amazingly, the sporting goods CEO refused, saying no golfer deserved something that most of the company's executives didn't even have. The CEO figured Palmer was in no position to turn down two decades of guaranteed income over something so small.

But according to Futterman, "The life insurance policy was his line in the sand, the measure of whether this company that supposedly cared so much about him actually respected him as a professional." Palmer broke off negotiations, and fulfilled the final three years of his original contract, and started a unique business relationship with Mark McCormack, the founder of International Marketing Group (IMG).

With IMG's guidance, Palmer produced his own line of golf equipment and apparel, designed golf courses, and became a celebrity pitchman for everything from motor oil to soft drinks. The IMG template that began with Palmer expanded from athletes to entertainers and completely changed the financial landscape of both fields. Sports and entertainment became "industries," and the "stars" became entrepreneurs and business owners.

This true story has several interesting takeaways regarding life insurance. Palmer recognized the tenuous nature of his income, and his long-term financial obligations to his family, and he saw permanent life insurance as a solution to those challenges. The executive compensation agreement idea Palmer proposed to satisfy his desire for life insurance is still used today by many companies to retain valuable talent. A lot of things have changed over the past six decades, but the essential form, function and value of life insurance has remained remarkably constant. ❖



Arnold Palmer saw permanent life insurance as a solution to his challenges.



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