TOP MONEY MANAGERS REVEAL THEIR INVESTING WISDOM

SECRETS OF THE WEALTH MAKERS

MICHAEL F. LANE

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I dedicate this to my wife, Lisa, and my beautiful children, Kendall and Brooks. My relationship with you is my greatest achievement.

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PREFACE

TODAY EVERYONE WATCHES THE STOCK MARKET. Ordinary people know what the market is doing in the middle of any given day, whether or not they are invested. Your favorite Internet sites have the Dow Jones and the Standard & Poor's (S&P) running across the bottom of the screen. Information is abundant and readily available.

Still, the problem is time: People have so little of it to spend on researching and learning. How do you know you are making the right investment decisions? What are the experts saying? Is their advice different from what you've been told? Are you making a leap of investment faith?

After reading many of the top books on investing advice, such as *Market Wizards* and *Investment Gurus*, I realized that they didn't tell me how to implement their insights in a comprehensive investment strategy. There was an unmet need for guidance, and so I set out to interview the top financial advisors to complete the picture. If success leaves clues, the cumulative experience of 25 of the top financial advisors in the country should supply a virtual road map that anyone can follow.

I've been in the investment business for over a decade as both a financial consultant and a creator of investment products. During this time I've had the good fortune to meet and become friends with some of the best and brightest financial advisors in the country—real wealth makers. I have asked them to speak candidly to me about investing and what makes their investor clients successful. The book is structured to make it easy to identify whose opinions and secrets you are reading.

Now, for just a small investment of your time, you can gain the benefit of years of knowledge and experience by reading this book. This book is for intelligent investors who want to glean secrets from leaders in the industry who are actually making other people wealthy and are willing to share their personal investing and financial-planning secrets.

Think of this book as a resource you can consult frequently to help build or adjust your investment strategies or adopt new ones. Just one idea could make a difference in the success of your financial future.

Best of luck!

Michael Lane

INTRODUCTION

INTERESTED TO LEARN how the clients of the top financial advisors have amassed millions of dollars of wealth? Can you duplicate the success of their wealth-making secrets? What do the top financial advisors in the country recommend in order to retire comfortably? Are they playing individual stocks? Are they investing in mutual funds? Are they investing overseas? Are they holding stocks for a week or 10 years? Do they use annuities, variable life, or municipal bonds for tax efficiency? How do they help a person transfer accumulated wealth?

Hi, my name is Michael Lane. I'm president of AEGON Financial Services Group, Inc., Advisor Resources, in Louisville, Kentucky. My firm focuses on helping people like you and your professional investment advisors find successful investment solutions. I've accumulated *hundreds* of years of experience in this book to give you the answers and tell you how to achieve investment success. For the next 200 or so pages I will address several topics ranging from E-trading to estate planning, individual investing to separate managed accounts. The primary objective is to provide you with the experts' opinions on these topics to assist you in finding the best strategy and products.

For the last 12 years I have been intrigued by the attention granted to "hot" portfolio managers. If the market is up 10 percent and a mutual fund manager is up 20 percent, he or she is touted in all the financial media. I read publications such as *Money Magazine* and *Smart Money* and wonder how many of the readers of those "sure bet" investment articles actually implement them and then hold the investments long enough to garnish at least half the potential reward. Buying the hot fund or hot stock of the day is only one, typically faulted, way to approach investing. But let's take the emphasis off the fund manager and place it on the source that actually provides consumers with the advice that can *make or break* a person's retirement.

Financial advisors come in many shapes and forms; some focus on niche opportunities, while others are comprehensive. I have met advisors who work on a fee basis, while others strictly earn commissions for the products they sell. It is not my position in this book to decide that one is better than the other. My objective is to take a detailed yet random sampling of a diverse group of advisors and weed through recommendations that appear consistent.

Every investor's situation is different. To minimize confusion, I have eliminated opinions that are on either end of the spectrum—ultraconservative to overly aggressive—since neither is likely to get you where you want to be in a predictable way.

My goal is to educate you—not about what to buy or whom to buy it from—but about the inside strategies and tactics used by the best in the business. The advisors I interviewed represent over 40 *billion* managed dollars and 30,000 clients. These are some of the most frequently quoted financial planners in the media and the most respected people in the industry. The majority have a minimum of 15 years of experience in the financial services business, and some have more than 30 years. Most of them have assets under management well in excess of $100 million.

The advisors who contributed to this book all have one thing in common: *the desire to meet the needs of their clients.* These people are not product salespeople. (About two-thirds of the people in the securities industry still earn a commission by selling a product.) The members of this group are truly interested in making sure their clients retire comfortably. Their recommendations, along with their personal stories, can help set the stage for you to achieve financial wealth and prosperity. As an advisor is introduced in the book, his or her location will be provided. For more specific information about each advisor, the reader can check Appendix A.

Before you begin Chapter 1, I want you to be in the correct state of mind. Everyone would love to be a "fly on the wall" during confidential, in-depth discussions. This is your chance! While reading through these chapters, visualize yourself in a room where the top financial advisors in the country have gathered together as a sort of focus group. As a topic is outlined, these experts will share their insights into it, strategies they employ, even stories about clients who did or did not follow their advice. You have a wonderful opportunity to learn secrets in a couple of weeks that took me over a year to gather.

CONTENTS

PART 1

WEALTH PLANNING

The objective of this section is to provide you with expert opinion on the planning and implementation steps necessary to achieve wealth.

CHAPTER 1

PLANNING FOR WEALTH

WEALTH IS SELDOM ACCRUED OVERNIGHT. You cannot, with any degree of probability, become a multimillionaire without proper planning, and more important, a *commitment.* If you're married or living with a significant other, you must both be committed to building wealth. This may seem like common sense, but believe me, it is more than that. Most of my married friends, both male and female, have issues when it comes to saving money. The most prominent is that one is a saver while the other is a spender. Before you read another page, you must first create an agreement with your spouse or significant other that you both will make an effort to build wealth, which means sacrificing a portion of everyday spending. But you shouldn't sacrifice everything, since that probably will lead to resentment and abandonment of the planning and accumulation phase of wealth building.

For most financial planners, the initial step that must be accomplished before investing is to understand the end objective. This step often is overlooked by most pure investment advisors. As you read this book, you will notice that some of the wealth managers have a foundation in planning while others focus more on investment methodology. I thought it might be helpful for you to hear responses to questions from multiple advisors. That way, as you read the book, you will begin to understand how different wealth managers plan and invest to meet their clients' needs. To make it simple to align the opinions with the advisors, I will start by listing the advisor and his or her location. For more information on each advisor, check Appendix A. Let's start with a few advisors' insights into what an investor must grasp before initiating the planning process.

Tom Nohr, a certified financial planner (FP) from Castro Valley, California, says, "Many people believe that they won't need as much income at retirement and that their taxes will be lower. This is unlikely, and planning that way could be disastrous." I agree. My belief has always been that I do not want to work with a financial planner or investment advisor whose goal is to lower my income at retirement. Your goal should be to retire at the same standard of living you currently can afford. In many situations, this means maintaining your current tax bracket. Tom believes that the first step in planning for wealth is to have a rational understanding of the fundamentals of taxation.

Lynn Hopewell from McLean, Virginia, follows the prudent investment procedures that all the *big money* managers use: "First assess your personal and financial circumstances; then formulate an investment policy that reflects those circumstances. Implement the policy by using a portfolio that is well diversified, economical, and, for taxable funds, tax-efficient. Don't make frequent changes, and don't worry about market dips. Keep your eye on the long term." This is a great place to start for most investors.

Harold Evensky from Coral Gables, Florida, states, "Investors are not necessarily rational. Recognition of the insecurities and emotions of the investor is paramount to successful long-term investing." I agree that emotion has to be put aside when one is planning for wealth. Throughout this book you will note that emotion is a major factor to contend with in the wealth-building process.

John Bowen, Jr., from San Jose, California, agrees: "It is important for investors not to get caught up in the *noise* of the day. Investors are surrounded by many messages that often have nothing to do with making intelligent decisions regarding their investment programs. It is very easy to get seduced when the media sensationalize many of these messages in an attempt to stand out from the crowd. Unfortunately, most of this information will do more harm than good. We believe investors need to move from being *noise* investors who are caught up in day-to-day reactions, to becoming *informed* investors who understand how markets work." John makes a good point in stating that listening to investment noise and making emotional decisions go hand in hand.

Marilyn Bergen from Portland, Oregon, offers another viewpoint: "My investment insights do not involve how to pick the right investment at the correct time. It is critical to take the emotional guesswork and reaction out of the investment decision-making process. This can be achieved through a series of nonemotional questions: What is the investor's goal? What is the dollar amount the investor wants to attain? What is the time frame in which the money will be needed?

"It is important to understand the long history of the markets, including both the expected return and the normal volatility ranges of multiple asset categories. We can then help the client answer the question: How much money needs to be saved annually or monthly to achieve the goal? What rate of return is necessary to achieve the goal? Is that rate of return possible or probable? Will the client be able to live with the volatility associated with that rate of return?

"A plan then can be put in place. Appropriate investments should be chosen to match the time frame in which the money will be needed. The investment plan should be well diversified across several asset classes. Then comes the hardest part: Emotions and reactions to volatility have to be put aside in favor of sticking to the well-thought-out plan."

Kelley Schubert from Dallas, Texas, gives us his take on emotional investing: "There are basically two emotions that lie at the root of every investment decision: fear and greed. Time spent managing these two emotions is much more valuable than time spent managing the investment portfolio itself. When a person makes a large mistake with his or her investments, it almost always is the result of a decision made out of excessive fear or greed. If this is where my clients are most likely to do the most damage to themselves, it is also where I want to concentrate most of my energies."

Ray Ferrara from Tampa, Florida, agrees that the most important thing is to keep people from hurting themselves: "The Internet provides a wealth of information, but information does not translate into knowledge. Because of the roaring market of the past 18 years, and especially the last 4, many people feel empowered and have decided that they can now invest on their own. To do anything and do it well, you must have three things: time, inclination, and knowledge. Most do-it-yourselfers lack at least one of the three, if not more. Others may hurt themselves by thinking that 'things are different' this time. Yes, things may be different, but only until they are not."

Wayne Caldwell from Eureka, California, adds, "A lifetime of wealth management is not a do-it-yourself project despite all the suggestions to the contrary. A well-respected writer in the field estimated that maybe 1 in 10 people has the emotional fortitude, let alone the time, to succeed at do-it-yourself wealth management. I would suggest the actual number may be even lower, especially as the amount of dollars people are responsible for rises."

Floyd Shilanski from Anchorage, Alaska, finds that people are afraid to start investing because of "their fear of making a bad decision, which causes the *deer in the headlights* syndrome. They become stalled and tend to rely on their friends or the company they work for, thus losing their financial independence."