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*Cherry Financial Partners, Ltd.  
Two Galleria Tower  
13455 Noel Road, Suite 410  
Dallas, TX 75240*



***[Cherry Financial Education Modules]***



# The Cherry Financial Education Modules

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## One Page Summary (A detail discussion of the following items begins on page 3)

- Financial security is attainable by anyone who commits to a journey of financial success built on fundamental and proven financial principles. The core underlying principle on which to build financial security is...  
**The Power of 10:**
  - Set a personal "Savings Rate" of 10% of Gross Income
  - Provide immediate income replacement of 10 Times Gross Income
  - Target a long term goal of asset accumulation of 10 Times Gross Income
- The Three Primary Phases of the journey to Financial Success are:
  - Phase I: Build a Solid Financial Foundation
    - Step 1: *Always Spend Less than You Make*, Track Expenses and Increase Cash Flow
    - Step 2: Create an Emergency Fund of 6 to 12 months of living expenses
    - Step 3: Manage and focus on eliminating unsecured revolving or credit card debt
    - Step 4: Use Insurance Properly, minimize cost and self insure where possible
  - Phase II: Build Long Term Asset Accumulation
    - Step 1: Pay Yourself FIRST, target a 10% personal "Savings Rate"
    - Step 2: Accumulate Based on Appropriate Priorities, establish an Emergency Fund then focus on qualified retirement plans
    - Step 3: Achieve the "Best" Possible Rate of Return, understand that higher returns normally mean higher risk
    - Step 4: Track Your Progress, establish intermediate goals with the ultimate goal of accumulating 10 times gross annual income
  - Phase III: Achieve and Maintain Financial Security
    - Basic Principle #1: Focus on asset preservation and establish distribution programs
    - Basic Principle #2: Avoid prolonged periods of negative returns, use professionally managed money
    - Basic Principle #3: Consider effective wealth transfer strategies
- Managed Money: The advantages of professional managed money through an Investment Advisory program.
- Insurance Products: A discussion of the proper use of insurance annuities and the advantages of the use of term life insurance and a Roth IRA.



# The Cherry Financial Education Modules

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## INTRODUCTION

We live in a society that is preoccupied with money and virtually everyone dreams of wealth, yet few attain the elusive goal of financial security. A primary reason so few achieve any significant level of financial security is that the vast majority of people mistakenly dream of an unattainable fantasy of fabulous wealth and therefore discount or fail to embrace the very real possibility of financial security. Due in a large part to a focus by the financial services industry on selling products as opposed to truly helping people financial, most people have not been taught a real understanding of how to clearly define meaningful financial goals, nor how or what to do to achieve those goals. Financial security has nothing to do with fabulous wealth but rather a *way of life* that continually works toward the **ultimate and only** financial goal that really matters: ***Accumulating enough money, and then protecting that money so it can generate adequate income.***

Like most things in life realistic goals are possible and are basically quite simple. Financial security is not a dream that is magically bestowed upon a select few, but a reality that can be achieved by anyone who chooses to embark on this most worthwhile and rewarding journey. Financial security may not be easy, but with adherence to a few basic fundamentals it is absolutely possible, it requires the:

- Basic knowledge of “what to do”
- Commitment to a few sound principles and
- Discipline coupled with patience

Forget ALL the fanfare, ALL the fancy sounding “talking heads”, ALL the self proclaimed experts that really only want to sell you a product. No one other than YOU can make YOU financially secure. Others may be able to help or assistance you, but YOU and YOU alone can take control of your own financial future and commit to a financial *Way of Life* that leads to ***financial security.***

## ***THE POWER OF TEN***

The following pages will provide specific steps to achieve Financial Security along with supporting illustrations and examples. Before we begin a more in depth discussion it is important to identify the basic building blocks or overriding concept on which all the following information can be built. The most basic and fundamental concept for achieving Financial Security for yourself and your dependents is what we call “The Power of 10”. If you remember nothing else from the following information and you can focus on this core concept you will dramatically increase your likelihood of achieving Financial Security. “The Power of 10” simply stated, is as follows:

- Always strive to save 10% of your Gross Income
- Provide “Income Replacement” protection for dependents through a combination of assets and life insurance for an amount equal to 10 Times your Gross Income
- Set an ULTIMATE goal of Accumulating investable assets equal to 10 Times your Gross Income

## ***THE THREE PHASES TO ACHIEVING FINANCIAL SUCCESS***

Armed with an understanding of the overriding concept of “The Power of 10” and a commitment to living a financial *way of life* that leads to financial security you are NOW ready to obtain the knowledge, implement the steps and embark on the journey. The following is intended to provide you with a basic roadmap, a fundamental guideline to reach your financial goal. As we have already mentioned it is really quite simple, there are three primary financial phases on your financial journey, each with supporting concepts and strategies that are all focused on the ultimate goal of financial security:

- **Phase #1:** Build a Solid Financial Foundation
- **Phase #2:** Build Long Term Asset Accumulation
- **Phase #3:** Achieve and Maintain Financial Security

Each phase is designed to focus attention on the steps necessary to reach basic goals that will then be built upon during each subsequent phase. During this section, we will focus on the above phases and the steps necessary to achieve financial security.

## PHASE I: BUILD A SOLID FINANCIAL FOUNDATION

Before anything else, **you must take control of your finances**. Regardless of your income, no matter what your financial situation, you must first either verify and confirm the appropriateness of your existing financial situation or take necessary action to improve and begin to correct your situation. After this initial step you are then able to commit to the most basic of required principles to live by for a successful financial way of life:

***You must spend less than you make.***

### STEP 1: TRACK EXPENSES AND INCREASE CASH FLOW

- ✔ There is no financial product, no miracle investment, nor magic formula that can help you succeed financially until you embrace this most basic and fundamental financial reality, **You must spend less than you make**. Tracking and controlling your expenses in relation to you income is the only way to build the foundation for the process of working toward the ultimate goal of financial security.
  
- ✔ There are no absolute rules on expenses but to provide an easy to remember guideline, consider the 10, 20, 30, 40 Principle. We will discuss the “10” in a few moment but as far as general expenses the following is a good albeit very general guideline for appropriate “Targeted Expense Ratios”:
  - *Income Taxes: 20% of Gross Income*
  - *Housing / Rent: 30% of Gross Income*
  - *Living Expenses: 40% of Gross Income*Although the above ratios or percentages may vary depending upon income and effective tax rates one would do well to consider these numbers and attempt to stay somewhat close to indicated amounts.
  
- ✔ Attack and reduce all appropriate expenses
  - *Reduce unnecessary spending*
  - *Identify “wants” versus “needs”*
  - *Consider “cash only” spending for certain expenses*
  
- ✔ Identify any possible expense reduction strategies
  
- ✔ Investigate any income increasing opportunities
  - *Consider viable and enjoyable part time income opportunities*
  
- ✔ As previously stated “The Power of 10” focuses on the GOAL of developing a savings rate equal to 10% of Gross Income
  - *You may have other important personal priorities for your finances, but remember the 20% or quite possibly more for income taxes is a legal matter and the 10% savings rate is your solution for financial security. So it is recommended that other key personal priorities be funded through adjustments to the 30% Housing/Rent and the 40% Living Expenses.*

## STEP 2: CREATE AN EMERGENCY FUND

As you develop and work toward the goal of a 10% personal savings rate your first priority is to accumulate an emergency fund. The development of an emergency fund accomplishes three (3) key objectives:

1. It provides peace of mind and a level of increased confidence
2. It enables you to better prepare for minor financial emergencies
3. It establishes the basis for reducing and eliminating debt, which we will discuss later

Your first goal is to create an emergency fund equal to at least 3 months of required living expenses with an ultimate goal of between 6 and 12 months of living expenses.

**SPECIAL NOTE:** *A common question is, "Which should I do first, pay down debt or create an emergency fund?" Of course, the ultimate answer is BOTH. However, if that is just not possible, then the creation of at least a 3 month emergency fund may likely be the better long term solution. As we will discuss in the debt reduction section, the first step to controlling debt is to STOP using debt. The sooner you can create an emergency fund that covers unexpected expenses the sooner you can stop using credit cards as your emergency fund and then really focus on eliminating debt. So a sound approach is to:*

- ✔ Always pay at least the minimum on your credit cards
- ✔ Concentrate on accumulating 3 months of living expenses
- ✔ Then focus on your debt reduction/elimination strategy

## STEP 3: MANAGED UNSECURED DEBT OR CREDIT CARD DEBT

In recent years excessive unsecured revolving debt has emerged as one of the single most insidious and destructive contributors to not only a failure to achieve financial security but actually an accelerated path to financial ruin. The following illustrates the devastating impact that debt can have on financial security.

### *The Debt Approach*

✔ Assumed Debt:	\$10,000
✔ Assumed Interest Rate:	18%
✔ Minimum Payment Amount:	\$150 / Month
✔ Number of Months to Eliminate Debt:	240 or 20 Years

### *The Financial Security Approach*

✔ Assumed Debt:	0
✔ Assumed Investment Rate of Return:	9%
✔ Assumed Investment Contribution:	\$150 / Month
✔ Account Balance After 240 Contributions:	\$100,000

**\$10,000 of DEBT DESTROYED – \$100,000 of FINANCIAL SECURITY!**

Hopefully, this illustration serves as additional motivation to evaluate your debt. If you are serious about reducing and eliminating your credit card debt, then take the following ACTION STEPS NOW:

- ✔ STOP using credit cards
- ✔ Identify and inventory all credit card debt
- ✔ Consolidate, if possible, any balances to available lower rates

- Itemize *all* credit card debt in descending order by
  - *Highest to Lowest interest rate then*
  - *Smallest to Largest account balance*
  
- Commit to Reduce *then* Eliminate Debt
  - *Concentrate as much payment as possible on the HIGHEST interest rate with the SMALLEST account balance. Be sure and always pay at least the MINIMUM payment on all other accounts.*
  - *Once the account with HIGHEST interest rate and SMALLEST balance is eliminated then apply that payment to the next account in sequence and continue the process.*

**Note:** *This approach is basic, simple and focuses only on the most financially devastating form of debt. After credit card or other unsecured debt is eliminated there are basically two strategies going forward:*

- 1.** *Continue to aggressively reduce any and all debt or*
- 2.** *Shift focus to saving as much as you can as soon as you can so that time can enhance your accumulation goals.*

There are varying opinions on which is best, but if your long term goal is to accumulate sufficient assets then generally the second approach or an emphasis on asset accumulation rather than total debt elimination is the better way to develop financial flexibility as you work toward financial security. To illustrate, it would generally be better to have \$100,000 of liquid assets and \$100,000 of secured low interest and possibly tax deductible debt than to have 0 assets, 0 liabilities and \$100,000 of illiquid assets, such as a house. Easier access to a liquid asset may offer more flexibility in case of financial emergencies than the difficulty of extracting money from an illiquid asset. Also, an emphasis on accumulating assets as soon as possible provides the added benefit of having the time value of money work on your behalf.

On the other hand there are some programs that concentrate on total debt elimination which are effective and may be appropriate for some situations. A word of caution though, while many of these programs may be purchased for very modest fees others may cost hundreds or even thousands of dollars. Obviously, there is no need to spend that kind of money on such programs. **There is absolutely no need to pay high fees or even go further into debt in an effort to get out of debt.**

#### **STEP 4: USE INSURANCE PROPERLY**

Appropriate insurance protection is absolutely vital to long-term financial security. However, the problem with insurance is that the amazingly wealthy and powerful insurance industry would have us believe that insurance is some kind of magic product that solves ALL your financial problems and is worth virtually any price. It is true that insurance has some unique features that can effectively **support or complement** an overall strategy for financial security. BUT REMEMBER, Insurance IS Insurance. As a general approach it is more economical to “self insure” smaller expenses through an emergency fund and use insurance to cover those potentially major expenses that would have a devastating impact on your financial security. Therefore, the following are basic guidelines for the “proper” use of the primary forms of insurance to support or complement your long-term plan of financial security:

### *Auto / Home*

Purchase appropriate “legal” coverage, protect your assets by obtaining adequate replacement value coverage and reduce premium costs by raising deductible amounts. This is an example of where a sufficient emergency fund can be very effective in covering smaller emergency expenses as opposed to spending higher premiums to cover every possible expense.

### *Health*

The cost of health insurance can be challenging but such insurance is vital to not only physical well-being but also financial security. Therefore, spend premium dollars on a quality “comprehensive” health insurance plan. DO NOT waste premium dollars on specialty health insurance policies such heart attack or cancer policies or health indemnity policies that pay specific dollar amounts. Although the lower premium cost may be inviting, such policies are so specific in nature that they do not provide adequate overall protection against a potentially devastating medical situation. Of course, wherever possible take full advantage of any company sponsored medical plans. But where such is not available the only real money saving strategy with personal health insurance is to lower premiums through higher deductibles and self insure such deductible with an emergency fund or possibly a tax deductible and tax deferred HSA, Health Insurance Savings Account.

### *Disability*

Many insurance experts rightly point out that disability is a higher risk and therefore more important to insure than premature death or even certain major medical situations. That being said however, disability insurance can be very expensive. Like the insurance we have already discussed the only real way to lower premium cost is to protect against only the most financially devastating forms of disability, that which is severe and extensive. So again attempt to self-insure any disability, which may be relatively non-debilitating and short term in nature, and attempt to protect against only those types of disability that would be most financially devastating.

### *Life*

Without a doubt life insurance can be one of the most misunderstood and misrepresented forms of insurance and as such when used improperly can have a severe negative impact on ultimate financial security. Like all other forms of insurance, the basic use of life insurance is to protect against a specific risk, the loss of income due to premature death. But the industry has effectively “packaged” life insurance as some miracle product that can address an entire litany of actual or perceived financial situations. More often than not life insurance is represented as an investment or an accumulation plan or a wealth creation plan or anything OTHER THAN protection against loss of income due to premature death. There may be certain situations where the unique features and benefits of life insurance can be used for tax advantaged accumulation, wealth transfer or estate preservation strategies. But, these situations are generally the exception and normally apply only to those individuals who have achieved a relatively high level of financial security and have already accumulated significant assets. We will discuss such situations in the Wealth Preservation and Distribution Section.

However, when it comes to life insurance, especially when someone is in the “accumulation phase” of building financial security, term life insurance is the most basic and cost efficient form of income replacement protection. Therefore, in almost all situations where the intent is to provide income replacement protection for the maximum amount of coverage at the lowest cost, term insurance is normally the right solution. There are various types of term insurance but generally the product should be of a long enough period (20 years or so) to allow for adequate asset accumulation and provide flexibility through a feature called renewable and convertible or possibly the enhanced flexibility of a new form of so called permanent term insurance.

### *“Who should be covered by life insurance?”*

As it relates to the basic risk of loss of future income, ask the following question. Would the death of a proposed insured result in the loss of income or create a financial hardship for an anticipated beneficiary? If the answer is NO, then usually there is no need for life insurance. This means that a child or a single individual that is not providing income for someone else normally has NO NEED for life insurance. On the other hand if someone is generating income or covering expenses that would create a financial burden for a surviving beneficiary then by all means life insurance should be used to protect against this possible financially devastating risk. So this means that a spouse that generates direct income or currently provides various family services that could be replaced only through an expense paid to others should be covered with adequate life insurance.

### *“How much life insurance is needed, and for what period of time?”*

As stated in “The Power of 10” a simple rule of thumb is to insure through the combination of assets and insurance, income replacement equal to 10 times Gross Income. Here is how it works: If someone generates say \$50,000 of gross income and has little or no existing assets then a multiple of 10 or \$500,000 would provide an income stream with a reasonable investment return for some 20 or so years. So without going through a detailed set of assumptions and calculations a safe approximate amount of insurance is generally 10 times someone’s annual income less any significant current accumulated assets. As far as how long really depends on how fast someone can accumulate adequate assets and achieve a level of true financial security. In most cases a minimum of 20 years of level term insurance allows enough time to create an appropriate level of assets that can allow for future reduction of life insurance needs or possibly even eliminate the need for income replacement life insurance. The industry has recently developed a hybrid term product that provides for immediate income replacement protection and options for extending future coverage as far as age 105. These new policies may be worth considering as a means of additional flexibility for an overall insurance strategy.

### *REVIEW*

Like anything in life, all good things begin with a plan, and a well designed program to implement that plan. The ultimate goal of financial security is no different and the primary steps of a plan for financial security start with building a solid financial foundation. The following 4 steps represent the key components of a solid financial foundation.

**Remember:** *Take control of your finances and **always spend less than you make!***

- **Step 1:** Track Expenses and Increase Cash Flow
- **Step 2:** Create an Emergency Fund
- **Step 3:** Manage Unsecured Revolving Debt or Credit Card Debt
- **Step 4:** Use Insurance Properly

## PHASE II: BUILD LONG-TERM ASSET ACCUMULATION

Once a solid financial foundation has been established, it is appropriate to focus on building real financial security. Most people view the accumulation of wealth as such a long term, confusing, and monumental task that the simple process of just beginning, seems impossible. Again, the key is to understand the basics, which essentially means answering the following:

- *When to invest?*
- *How much to invest?*
- *Where to invest?*
- *What to invest in?*
- *How long to hold an investment?*

### *STEP 1: PAY YOURSELF FIRST – SAVE AS MUCH AS YOU CAN AS SOON AS YOU CAN!*

#### *When to Invest, and How Much to Invest*

The earlier discussion on building a financial foundation has already basically answered the questions of “When to invest?” and “How much to invest in?” ‘When’ is obviously once your foundation is established and of course, the sooner the better. This is where patience and discipline come into play. Consider the following:

When a little means a lot:

- \$1.00 a day invested at 9% in 20 years equals \$20,000.

The High Cost of Waiting:

- \$100.00 a month invested at 9% from age 25 – 35 *only*, equals \$287,000.00 by age 65.
- \$100.00 a month invested at 9% *starting* from age 35, equals \$184,000.00 by age 65.

***Clearly, the best time to start investing is yesterday, while the second-best time is today.***

Now that we have discussed ‘*when to invest*,’ let’s consider ‘*how much to invest*.’ As discussed previously, the first goal of those seeking financial health is to control income and expenses and target a goal of a 10% savings rate. After being used initially to guild an emergency fund then eliminate any unsecured debt the available savings rate should then be used to ‘*pay yourself first*’ and thus, truly focus on building financial security. Of, course any amount greater than 0 is better than doing nothing, but the ideal goal is 10% or more of gross income.

#### *Where to Invest*

There is so much overwhelming information about investing that it is easy to confuse ‘*where to invest*’ with ‘*what to invest in*.’ The ‘*where*’ refers to the vehicle or program for an investment such as a 401k plan, an IRA, or an individual account. On the other hand, the ‘*what*’ refers to the actual investment in a given vehicle or program. For example, many people will say, “I invest in an IRA,” but the truth of the matter is that most people invest in mutual funds *within* an IRA. We will discuss the entire ‘*what*’ issue in another section but for now we will focus on ‘*where*’ to invest.

### *STEP 2: ACCUMULATE BASED ON APPROPRIATE PRIORITIES*

Debates rage on what program is best to use for investing, where to invest first and whether certain programs should be used at all. There is no doubt that certain benefits and advantages can be derived from various investment vehicles. However, quite often so much confusion is created as a result of all these discussions, many people virtually freeze for fear of making a mistake. The truth is *doing something* in any number of ‘good’ programs is certainly better than doing

nothing while attempting to determine the 'best' possible program. Therefore, the following basic priorities for investing, although not hard and fast rules or complete, provides a basic roadmap for where to invest and when.

- **Establish an Emergency Fund**  
*Minimum 3 months of living expenses usually in a very flexible easily accessible program such as a Money Market Account.*
- **Maximize Employer Match**  
*Save at least the minimum amount to receive the full benefit of any employer matching contribution for a company sponsored retirement plan, such as a 401k plan.*
- **Eliminate Non-secured Debt**  
*Once items 1 and 2 are addressed then it is likely appropriate to shift to the debt elimination process discussed in the Build a Solid Financial Foundation Section.*
- **Appropriately Fund All Available Qualified Retirement Plans**  
*This includes fully funding any 401k plans and all types of Individual Retirement Accounts (IRA). Especially appropriate is the use of a ROTH IRA, which, although does not provide tax-deductible contributions, does however, offer TAX FREE future withdrawals.*
- **Fund Any Available Alternative Non Qualified Plans**

### STEP 3: ACHIEVE THE BEST POSSIBLE RATE-OF-RETURN

#### **What to Invest In**

Entire books have been written in an effort to explain this simple yet critical aspect of achieving financial security. Consequently, we will not attempt to engage in an exhaustive discussion of the endless array of investment options and corresponding returns. Like everything else in this discussion, we will provide an overview and general guidelines.

To assist in illustrating the basic impact that both rate of return and timeframes can have on accumulation values the following concepts are helpful:

- **The Rule of 72:**  
*Any lump sum amount of money will double based on the equivalent of 72 divided by an applicable interest rate. For example:*
  - *At 4% \$10,000 Doubles to \$20,000 in 18 Years (72 Divided By 4 = 18)*
  - *At 9% \$10,000 Doubles to \$20,000 in 8 Years (72 Divided By 9 = 8)*
- **The Rule of 1 = 1000:**  
*Every \$1 of monthly contribution equals \$1,000 in approximately 24 years assuming a 9% rate of return. For example:*
  - *\$100 / Month at 9% in 24 years = Approximately \$100,000*
  - *\$250 / Month at 9% in 24 years = Approximately \$250,000*

Now that we have some basic accumulation concepts in mind, let's move to a more specific discussion regarding various rates of returns. First of all, many people see the concepts illustrated above and therefore naturally assume that the key to success is to achieve the *highest* rate of return. However, this can potentially be very dangerous to a long term strategy for financial security. The real goal is to achieve the *best* possible rate of return. There is a proven

general investment rule that says ‘the higher the return, the higher the risk.’ In other words, higher returns can expose an investor to the potential for higher negative returns, which can have a devastating impact on financial security. Therefore, the best possible return may be seen as the return with the highest rate of return *and* combined with an appropriate level of risk.

So what does that mean? The only real way to explain this is to look at historical returns across the spectrum of investing.

### *THE SPECTRUM OF INVESTING*

<i>INVESTMENT PRODUCT</i>	<i>RATE OF RETURN</i>	<i>RISK LEVEL</i>
Money Market	1 to 2%	Very Low
Bank CDs	2 to 3%	Guaranteed
Insurance Annuity	2 to 4%	Guaranteed
Government Bonds	2 to 3%	Very Low
High Grade Bonds	3 to 5%	Low
Lower Grade Bonds	4 to 6%	Moderate
High Yield Bonds	7 to 10%	Moderate/High
Large/Mid Stocks	8 to 11%	High
Small/International Stocks	9 to 12%	Highest

The above are representative only of general long term returns and risk levels. Actual returns of individual products of a similar type may vary widely. These numbers should be used generally to understand various rates of return and to help determine the corresponding level of risk.

**Note:** Any investment which supposedly offers a rate of return dramatically different or higher than those listed above should be viewed with extreme caution.

For a personalized recommendation on investment strategies it is always recommended that you discuss with your advisor your goals, temperament, timeframes and complete a personal risk evaluation questionnaire. However, the following can be used as a basic guideline for general investment recommendations for relative timeframes:

- **Short Term** (1 to 2 Years) Immediate access; Money Market account
- **Mid Term** (3 to 10 Years) An allocation of stocks, bonds and conservative asset classes
- **Long Term** (10+ Years) A diversified portfolio of stocks and more aggressive asset classes

#### STEP 4: TRACK YOUR PROGRESS & SET INTERMEDIATE AND LONG TERM GOALS

Now that you are on your way to building financial security it is important to stay disciplined and yet remind yourself that you are progressing toward your ultimate goal. One of the best ways to do this is Track Your Progress and Achieve Intermediate Goals. A good tool to assist you in this process is to regularly update a Personal Net Worth Statement, which will enable you to make changes at any time and verify intermediate goals as you work toward your ultimate goal. Your financial goals are always your personal decision however the following provides suggested intermediate goals toward the ultimate goal based on the “Power of 10.”

- **Goal #1:** Create a net worth equal to 3 months of living expenses
- **Goal #2:** Eliminate all non-secured debt
- **Goal #3:** Create a net worth equal to 1 year of gross annual income
- **Goal #4:** Create a net worth equal to 5 years of gross annual income
- **Ultimate Goal:** Create a net worth equal to 10 years of gross annual income

#### DIVERSIFICATION

Another key component of a successful investment strategy is what is referred to as diversification. Diversification means simply owning various asset classes that traditionally perform differently at any given time or are referred to as “non-correlated”. The most basic form of a group of non-correlated assets is stocks versus bonds. Traditionally, stocks offer the potential for higher returns but can also be very volatile and therefore experience periods of negative returns. On the other hand, bonds normally are less volatile yet provide lower returns. Therefore the most basic asset allocation for an adequately diversified portfolio is an appropriate mix of stocks and bonds.

#### *The Rule of 100*

A basic rule of thumb used by many is what is referred to as “The Rule of 100.” For general purposes, this means that you take your age and subtract it from 100. The remaining number is the general percentage, which is appropriate for stocks in an overall portfolio. For example, someone age 40 would have an allocation of 60% stocks or other more aggressive ( $100 - 40 = 60$ ) and 40% bonds OR other similar conservative asset classes.

Although the “Rule of 100” is a good general approach to asset allocation or diversification, it is recommended that you discuss your investment objectives and risk tolerance with a trusted advisor. Doing so will provide you a more specific and personalized investment program and will likely further contribute to your overall investing success.

#### *Tax Advantaged Investing*

A related subject which deals with ‘where to Invest’ (often debated and discussed) is ‘Tax Advantaged’ investing. It may be helpful to have more information on this subject in order to understand how to best utilize this benefit. There are basically 3 types of tax advantaged investing programs, which are most common in various forms:

##### **1. Tax Deductible**

*Provides for an immediate tax deduction for the contribution amounts of certain plans. Due to continuous tax law changes tax deductible contributions have become increasingly unavailable. However, virtually all traditional 401k plans provide for tax deductible contributions.*

##### **2. Tax Deferred**

*Offers NO immediate tax deduction but defers tax liabilities on investment appreciation until withdrawal.*

### 3. Tax Free

*Offers NO immediate tax deduction, defers immediate taxes on investment appreciation and eliminates any tax liability on future withdrawals.*

Clearly each of these approaches contributes to adding more assets to any accumulation program. Certain investment programs, most notably so-called “qualified retirement plans” provide for one or possibly two of these benefits but seldom if ever are all three available in a single program. Also, life insurance agents are quick to point out that both life insurance and annuities provide various forms of tax advantaged investing. We will discuss the appropriateness of such products later; but for now what is the simplest way to use tax advantaged investing and in what priority?

Although an immediate tax deduction may encourage some level of investing, it is somewhat limited as to long-term benefits. That being said, if a tax deduction is available to you personally, it provides a clear benefit. Currently, the most common form of a tax deductible program is corporate sponsored 401k plans and certain Individual Retirement Accounts (IRAs).

To continue, virtually ALL qualified retirement plans inherently offer the benefits of *tax deferral*; again, clearly beneficial as **all** earnings on an investment grow without the reduction of immediate taxes. However, future taxes will be required as any withdrawals from an account are made. *Tax deferral* is clearly beneficial especially if it is anticipated that a future applicable tax rate will be equal to or less than any applicable current tax rate. Some argue that if future tax rates are significantly higher you would be better off not using tax deferral at all. While this may be mathematically correct there are ways to control or mitigate future tax liabilities and the assets that can be accumulated through tax deferral clearly offer accumulation benefits that have the clear possibility of outweighing future tax liabilities.

All that being said, fortunately certain programs such as a Roth IRAs, while offering no immediate tax deduction, does provide for both *tax deferral* as well as *TAX FREE* future withdrawals. In light of current budget challenges, many people feel that future tax rates will likely increase. If you personally share such an opinion, then a *TAX FREE* Roth IRA (or new Roth 401K) is certainly an attractive option.

Again, like other matters we have discussed, tax advantaged investing can be quite complicated and may have numerous variations or combinations. Therefore, the following provides a good basic, albeit not exhaustive, guideline for tax advantaged investing:

- **Tax Deductible:**

*If available certainly take advantage of any immediate tax savings. Of course, if possible use the immediate tax savings to maximize current contribution amounts.*

- **Tax Deferral:**

*Not paying immediate taxes on investments is clearly better than paying taxes. One may argue that it is better to use investments that are subject to current capital gains taxes as opposed to future income taxes or that future income taxes may be higher. All of which may be true. But if your priority is to accumulate as much as you can as soon as you can, then although possibly not the optimal solution assuming certain future unknown variables, tax deferral is still clearly better than reducing performance as a result of current taxes.*

📌 **Tax Free:**

*Of course the whole discussion of future tax liabilities is a mute point if you can have access to BOTH current tax deferral and future tax-free withdrawals. Therefore, if possible the use of a Roth IRA with tax-free withdrawals is clearly a “win / win” situation.*

### **Mutual Funds**

Mutual funds came into existence in the 1920s and were created initially to provide average investors, for relatively modest amounts, access to primarily a group or portfolio of individual stocks and bonds. From this humble and well intended beginning mutual funds have grown into a massive trillion dollar business with a complicated and endless variety of offerings with actually more funds than there are individual listed stocks.

Unfortunately as the years have past mutual funds have become progressively more and more expensive and less and less effective. As the industry has matured an emphasis on profitability, generalized performance along with recent regulatory missteps have all contributed to a product offering that suffers from the following:

- 📌 *Performance that is hindered by excessive fees*
- 📌 *Investment returns that at best mirror that of respective indexes*
- 📌 *Lack of investment flexibility that is unable to protect assets in generally down trending markets or maximize performance in generally up trending markets*

These aspects of a mutual fund have caused many individuals to reconsider their use for long term investing. However, although such is often the case there are certain situations where mutual funds may be the most effective solutions at least for a period of time. Mutual funds may serve as an effective solution for two primary situations:

1. *When someone is just beginning the accumulation phase of their financial journey and may be able to invest only relatively modest monthly amounts, or*
2. *When a company sponsored retirement plan, such as a 401k plan, uses mutual funds as the investment vehicle within the plan.*

In both cases, doing something toward your ultimate goal is certainly better than doing nothing because you are concerned that there is a better solution than mutual funds. If possible, consult with a trusted advisor that can assist you with selecting the best possible mutual funds that are available now and can provide access to alternative investment programs as your assets grow.

### **Variable Annuities**

Closely related to mutual funds are variable annuities, which have become the insurance industry’s answer to participation in the massive mutual fund business. The industry simply took one of their old traditional insurance products, an annuity, and partnered with the mutual fund industry to provide mutual fund like investments called sub accounts. Unfortunately, in many cases this has simply resulted in a product with the same limitations of mutual funds “wrapped” inside an insurance product, which also has its own series of fees. Thus you end up with an investment vehicle that although admittedly has certain beneficial insurance features, such as death and living benefits, now has fees on top of fees that often makes it even more difficult to achieve effective investment results.

**Special Note Regarding Variable and Fixed Annuities:** *Although annuities in general and variable annuities specifically may have certain drawbacks and limitations, there are clearly situations where they may provide unique benefits and features. There may be certain situations when a portion of especially a larger portfolio*

may demand absolute guarantees of principle and / or income. Most all fixed and many variable annuities are uniquely designed to provide many such guarantees. It may be appropriate in such cases or possibly as the “conservative” portion of a portfolio to use carefully selected annuities. However, one must realize that annuities are a long-term program and as such normally contain fees and limits on access to assets especially in earlier years. Therefore, it is important to understand all applicable fees and to work with a trusted advisor PRIOR to making a decision to use an annuity as part of your overall investing program. ALSO, due to such fees and restrictions it is seldom appropriate for someone to invest their ENTIRE portfolio in such products.

#### **ALTERNATE INVESTING SOLUTIONS**

Many people today are beginning to realize the increasingly ineffective aspects of mutual funds and mutual fund type products and are continually seeking superior alternatives. Two very popular approaches that many people are turning to in ever larger numbers are:

- 1. Do It Yourself**

*Many people have decided to completely avoid the many inherent conflicts that have developed within the industry and have chosen to take an active personal role in their own investment decisions. The significant increase in online information and various trading platforms is indicative of the interest that certain investors have to such an approach.*

- 2. Hire Proven, Successful, Professional Money Management**

*However on the other hand, the increasing complexity of the investing environment and increased market volatility has caused many investors to actually seek even more assistance. This emerging trend has resulted in a “new” level of professional money management that had previously been unavailable to average investors. In recent years an increasing number of proven professional money managers have decided to expand their services to more modest account balances. In many cases these professional money managers that previously had minimum account balances of \$1 million or more have now made their services available to accounts of \$50,000 or even less in some cases.*

#### **Passive vs. Active Investing**

A subject of increasing debate especially in light of recent market volatility is the matter of Active versus Passive Money Management. As a point of clarification, what we are referring to here is not the matter of an active mutual fund manager within a certain “style box” versus a corresponding passive index fund. But rather we are specifically talking about the active management of an overall diversified portfolio of various asset classes versus the passive management of a somewhat static or very limited group of asset classes.

#### **Passive Money Management**

Passive Money Management generally refers to the traditional form of money management that is based on the long held concept of Modern Portfolio Theory. This basically proposes that superior performance with lower volatility is achieved by designing a generally fixed or static mix of appropriately diversified asset classes and then to “buy and hold” such portfolio for relatively long periods of time. There are numerous academic studies which indicate that over long time periods, normally 20 or so years, such an approach while exposing and investor to possible market down trends is offset by the benefit of being positioned to fully benefit from any market up trends. It is true that for some 20 years of overall upward trending markets prior to 2000 such an approach resulted in generally positive investment results. However, the two major market corrections in the past 10 years has caused many people to expand or complement this traditional approach with an equally time tested and proven alternative strategy known as Active or Tactical Money Management.

## Active or Tactical Money Management

Active or Tactical Money Management generally refers to a similar diversified mix of various asset classes BUT promotes a more active management or movement of such asset classes based on certain market trends and indicators. There are varying degrees of active money management from moderate adjustments to more aggressive adjustments that may move an entire portfolio to safe or conservative asset classes such as cash during periods of extreme market volatility. One of the core principles of this investment approach is to not only achieve long term investment performance but also to mitigate the negative impact of major market downturns. This is especially appealing for investors as their assets increase and their investing time horizons decrease as well as for those investors that have transitioned to a capital preservation and distribution strategy. Of course, it has been proven time and again that it is virtually impossible for any investment professional to successfully predict or “time” all short-term market ups and downs. However, there are experienced money managers that have proven the ability to generally navigate market “trends” and dramatically reduce the negative impact of major market downturns.

*For additional information regarding active or tactical money management strategies, refer to the Managed Money discussion in the Additional Information Section.*

### REVIEW

As we have discussed in detail, the ultimate goal of financial security is based on the accumulation of adequate assets. This most basic of concepts is built on two primary components: Saving an adequate amount and achieving a long-term effective rate of return. The following four steps provide the basic essentials for maximizing these two key components and providing guidelines for building long-term asset accumulation:

- **Step 1:** Pay yourself FIRST and Save as much as you can as soon as you can.
- **Step 2:** Accumulate based on appropriate priorities.
  - *Establish an Emergency Fund*
  - *Maximize Employer Match*
  - *Eliminate Non-secured Debt*
  - *Appropriately Fund All Available Qualified Retirement Plans*
  - *Fund Any Available Alternative Non Qualified Plans*
- **Step 3:** Achieve the BEST possible rate of return
- **Step 4:** Track Your Progress / Set Intermediate and Long Term Goals
  - **Goal #1:** *Create a net worth equal to 3 to 9 months of living expenses*
  - **Goal #2:** *Eliminate all non-secured debt*
  - **Goal #3:** *Create a net worth equal to 1 year of gross annual income*
  - **Goal #4:** *Create a net worth equal to 5 years of gross annual income*
  - **Ultimate Goal:** *Create a net worth equal to 10 years of gross annual income*

## PHASE III: ACHIEVE & MAINTAIN FINANCIAL SECURITY

As has been discussed in preceding modules, the journey to financial security has three basic stages. First a foundation must be established, then a relatively long period of asset accumulation is required after which you enter the final stage, the asset preservation and distribution stage. In many ways this final stage can be the most difficult to manage because sharp market downturns can be especially devastating and time horizons are shortened which limits an investor's ability to recover from such losses. Therefore, although a certain level of financial security may have been achieved it is still critical to continue to adhere to key financial principles:

### *BASIC PRINCIPLE #1: PRESERVATION AND DISTRIBUTION STRATEGIES*

Unfortunately, there is no single investment strategy or program that is appropriate for an entire lifetime of investment options, challenges and opportunities. Therefore, different stages of life call for appropriate adjustments to reflect changing investment requirements. The achievement of a level of financial success and the realities of the need for preservation and distribution of assets requires an appropriate adjustment in investment strategies. Therefore in this financial phase it is normally appropriate to discuss preservation and distribution strategies with your advisor and move toward a more conservative capital preservation strategy.

### *BASIC PRINCIPLE #2: AVOID PROLONGED PERIODS OF NEGATIVE PERFORMANCE*

Avoidance of protracted periods of negative performance is critical during this period of wealth preservation and distribution. Primarily due to the need to begin distributing assets along with the lack of extended investment horizons, a significant reduction in assets due to market volatility can be especially detrimental to long-term financial security. Therefore, appropriate use of proven ACTIVE money managers is an especially effective investment strategy in order to achieve adequate returns while appropriately focusing on preservation of assets. This may also be a period of time where selective use of certain carefully evaluated annuities can be used to provide appropriate guarantees.

### *BASIC PRINCIPLE #3: CHARITABLE GIVING & WEALTH TRANSFER STRATEGIES*

Depending on the level of financial security that has been achieved this is also the financial phase when certain individuals may want to consider various forms of charitable giving and wealth transfer strategies. It is natural that individuals who have been able to achieve a level of financial success may want to support certain organizations, causes or assist other family members. If such is the case there are clearly appropriate strategies for best utilizing the full benefits of various programs so as to maximize all available opportunities. Such strategies should first be discussed with your trusted advisor who may choose to consult with an attorney or other financial professionals who can assist with the appropriate legal structure of such strategies. This may also be the time when certain forms of life insurance may be used for purposes other than basic income replacement purposes. However, again caution must be exercised, be certain you understand exactly what any life insurance strategy is intended to accomplish and be aware of all fees and restrictions associated with any such strategy.

### *REVIEW*

The third and final phase of ultimate financial success is certainly the most rewarding and satisfying yet it can also present some of the most unique and difficult challenges. It is critical during this phase that a close relationship with a trusted advisor is developed and that such advisor has the ability to access the talents of other financial professionals in order to assist an individual who has achieved a level of financial success to also continue to maintain such success.

## ADDITIONAL INFORMATION

### MANAGED MONEY

To help people succeed financially it is critical that adequate assets are accumulated then protected and preserved. To assist with this key component of financial success one of the core solutions offered by Cherry Financial Partners is the investment management strategy known as Managed Money. After a long period of generally upward trending markets, the year 2000 marked a fundamental shift in the investment environment that experienced two of the most financially devastating “bear” markets since the great depression. Unlike many of the traditional investment concepts that have proved to be increasingly ineffective during this difficult investing environment, Managed Money through investment advisory services provides a more active and flexible platform that enables adjustments to an ever changing and increasingly complex investment environment.

Depending on a manager’s general view of the current and anticipated market environment, an asset allocation strategy as managed by a professional investment manager can be broadly characterized as one of two primary approaches. The two most fundamental asset allocation investment strategies or disciplines are:

1. Strategic Money Management
2. Tactical Money Management

#### *STRATEGIC MONEY MANAGEMENT*

Strategic Money Management is generally characterized by:

- A somewhat fixed or static Asset Allocation
- More traditional asset classes such as primarily stocks and bonds
- Regular asset rebalancing in order to maintain the desired asset allocation

Strategic money management is considered to be most effective in an anticipated long term upward trending market. The most common strategic approach often uses an asset allocation of selected mutual funds or individual holdings of a specific asset class such as stocks.

There are many forms of Strategic Money Management but one of the most effective over long periods of time has been what is referred to as “Value” investing. Unlike other forms of strategic money management that tend to focus on shorter term potential investment opportunities, value investing focuses more on the long term ownership of the stocks of quality companies. Such an approach emphasizes the importance of the fundamental soundness of various companies and believes that owning such companies offers an effective strategy for potentially achieving long-term superior investment results.

#### *TACTICAL MONEY MANAGEMENT*

Tactical Money Management is generally characterized by:

- A more variable or active Asset Allocation
- Broader Asset Classes to include stocks, bonds, hard assets, alternative assets and the use of cash as a viable defensive asset class
- A more Active Asset Allocation based on a managers general view of market trends

Tactical money management is normally recommended for intermediate market trends of anticipated periods of variable or volatile market activity. A common tactical approach employs the active asset allocation of asset classes through index or exchange traded funds. As with all money management strategies there are varying degrees of so called “active” approaches. Some managers take a more “constrained” approach and prefer to actively asset allocate based on their view of the potential opportunity or risk available at any given time to a certain asset class. On the other hand some managers consider themselves “unconstrained” in their selection of asset classes and more aggressively move to various asset classes, to include a possible 100% cash position during periods of what they perceive to be potentially protracted negative returns.

Whether Strategic or Tactical, Cherry Financial Partners believes that the management of money is a full time job best performed by full time dedicated professionals. As such our general investment advisory business model is to have our Representatives to manage client relationships and then hire and monitor the very best professional money managers. As an indication of how critical professional money management is, the following chart is representative of the performance that has been achieved by access to the services of professional money managers.

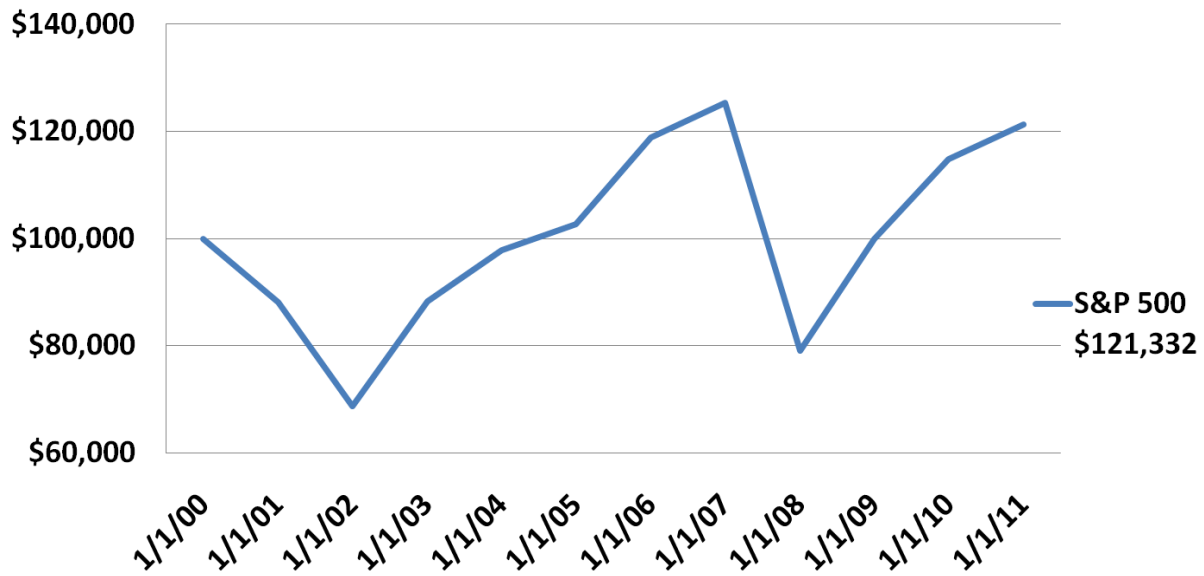
*Survey Conducted by the Boston College of Wealth and Philanthropy*  
**AVERAGE ANNUAL RETURN FOR INVESTORS 70 AND OLDER FROM 1998 TO 2004**

<i>ASSETS</i>	<i>ANNUAL RETURN</i>
<i>More Than \$1 Million</i>	<i>10.8%</i>
<i>Less Than \$1 Million</i>	<i>3.7%</i>

As the above numbers indicate, those individuals with larger account balances that likely had access to the expertise of professional money managers, experienced superior investment performance. Through improvements in technology and the desire to improve investment performance for a growing market segment many money managers have dramatically lowered their minimum investment account requirements. Through relationships with such managers Cherry Investment Advisors is now able to bring the services of professional money managers to investors with much more modest amounts of investable assets.

To further illustrate the potential advantages of professional managed money the following graphs provide illustrations over the past 10 years of a hypothetical investment directly in the stock market compared to the actual investments of a selected professional money manager.

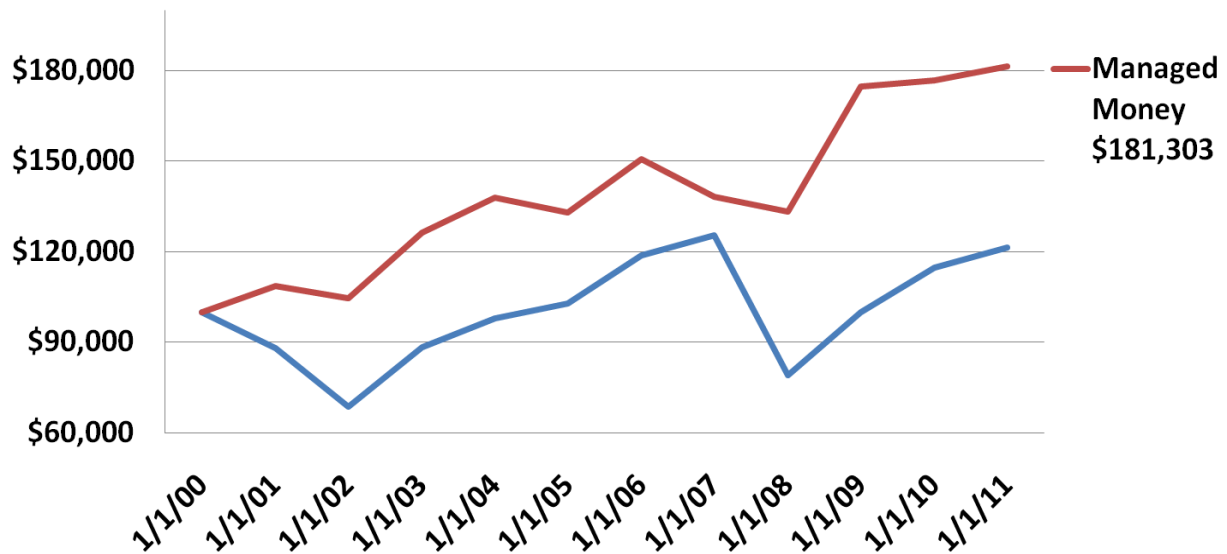
**S&P 500**  
**(1/2000-3/2011)**  
**HYPOTHETICAL INVESTMENT, DIVIDENDS REINVESTED**



**MANAGED MONEY ILLUSTRATION BASED ON ACTUAL ACCOUNT**

**(NET OF ALL FEES, PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE)**

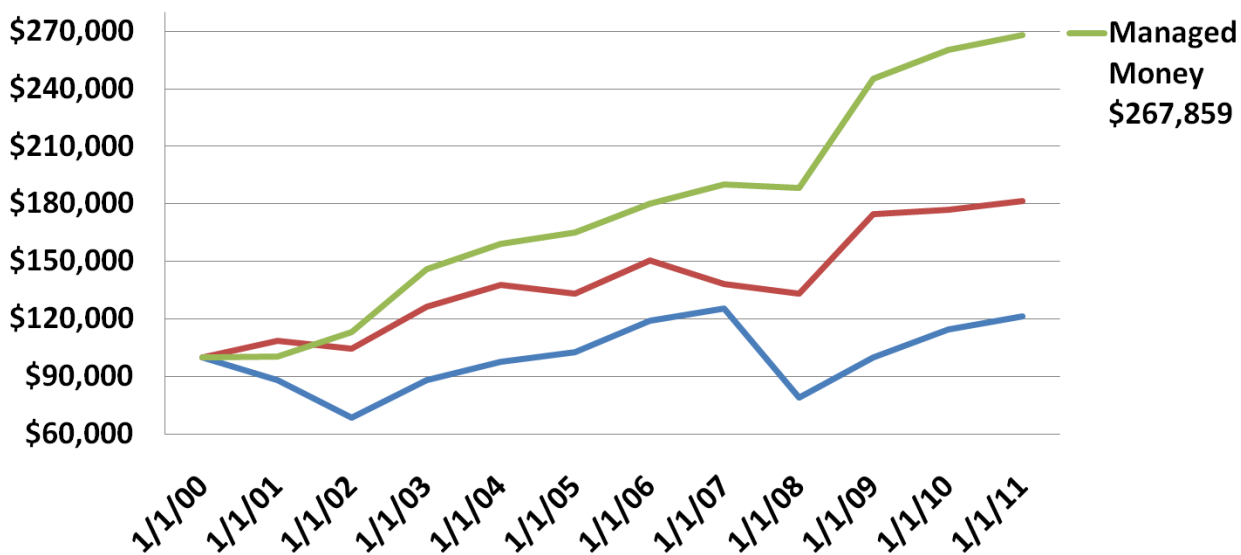
**\$181,303 VERSUS \$121,332: 49% MORE MONEY**



## Managed Money Illustration Based on Actual Account

(Net of All Fees. Past Performance Is No Guarantee of Future Performance)

\$267,859 Versus \$121,332: 120% MORE Money



The above illustration for the selected professional money manager is NET of all applicable investment advisory fees and is based on past performance, which is no guarantee of future performance. However, the numbers do indicate the potential for vastly superior performance by employing the active money management strategy of a professional money manager.

Before considering any investment program and selecting an "Appropriate" Managed Money strategy, two key factors must be determined:

1. The Risk Tolerance of the Client
2. The General Market Environment

### *Risk Tolerance*

The Risk Tolerance of a Client is determined by completing the individual and specific questions as part of the Cherry Client Profile. In addition to the specific details provided through the Client Profile the following general characteristics also help to determine a risk tolerance:

- Longer Timeframes / More Aggressive; More Strategic
- Shorter Timeframes / More Conservative: More Tactical

## *General Market Environment*

The General Market Environment is a far more objective evaluation, which may vary based on the individual trend analysis of each respective money manager. However, regardless of the individual money manager evaluation the following guidelines can be used to help select a general investment strategy.

- General Market Upward Consensus: More Strategic
- General Market Volatile (Flat to Down) Consensus: More Tactical
- No Strong Market Consensus: Combination of Strategic and Tactical

## *REVIEW*

The selection of a specific investment strategy is a critical component of the goal of ultimate financial success and is based on the collective evaluation of an individual's immediate and long-term investment goals and risk tolerance. Therefore, such a process demands an ongoing client relationship to continually evaluate, monitor and adjust all the variables affecting a long term investment strategy and is to be conducted only by those that are properly licensed and trained to perform such activities.

Cherry Financial Partners is committed to supporting this activity by continually evaluating the dynamic investment environment and the performance and services offered by the ever changing and expanding universe of professional money managers. All of which supports our ongoing commitment to *Help Clients Succeed Financially*.

## INSURANCE PRODUCTS

The financial services industry offers an overwhelming array of insurance products. Attempting to understand and select appropriate products can be a daunting task. The following information, although not intended to be a complete discussion of insurance products, does provide a basic understanding of certain insurance products and a guideline for understanding the appropriate use of such products.

### ANNUITIES

Annuities have always been a mainstay of the life insurance business and in their simplistic formant were designed to provide a guaranteed stream of income for the life of the annuitant. However, in recent decades these products have gone through continual refinements, adjustments and updates to where, similar to life insurance, there now exists a mind-numbing array of product types, features and benefits. But as with life insurance our goal is to simplify and clarify how Cherry Financial Partners views and uses annuities to help clients succeed financially. As such, in its most basic form there are really only two kinds of annuities:

1. Fixed or Fixed Index; which pays a declared interest rate normally based on a common interest rate indicator such as treasury bills or tied to an equity based index such as the S & P 500 with so called maximum participation rates. These annuities provide for principal guarantees and guaranteed interest rates of between 0 and generally 2% to 3% and the prospect of consistent and slightly higher rates of returns over other interest rate products.
2. Variable; which is basically a group of mutual fund type products, called sub accounts, wrapped around an insurance-based product. As such variable annuities perform virtually the same as mutual funds and can experience the same potential for growth and volatility as that of mutual funds. The volatility of the sub accounts may be somewhat mitigated by both death benefits and certain guaranteed living benefits.

### Advantages

Annuities have clear advantages that provide certain financial benefits. Some of these benefits include:

- **Tax Deferral:**  
*By regulation all annuities are structured so that asset appreciation occurs without payment of current taxes and the ultimate payment of appreciation in excess of contributions is taxed as ordinary income.*
- **Principle Guarantees and Consistent Rates of Return:**  
*Especially as it relates to fixed and fixed indexed annuities, there are guarantees of principal and though modest, are consistent and in most cases, guarantee interest.*
- **Death Benefits:**  
*Most all annuities but primarily variable annuities provide for the payment of an amount upon the death of the annuitant that is equal to at least the total contributions and in many cases additional values to include credited interest or certain higher account values.*
- **Living Benefits:**  
*Most variable and many fixed annuities offer what are called living benefits that provide for certain guarantees of credited interest or higher account values once the annuitant begins to take various forms of guaranteed streams of income.*

## *Disadvantages*

On the other hand the clear advantages of annuities must be carefully considered against what many view as the disadvantages of annuities to include:

- **Lack of Flexibility:**

*Virtually all annuities should be viewed as long term investments and it must be understood that access to the entire account value for a number of years, in many cases 5 or up to 10 or more years, is normally restricted and subject to surrender penalties and charges especially in earlier contract years.*

- **Fees:**

*All annuities inherently carry fees to cover acquisition cost such as commissions. Variable annuities in particular and the living benefits of fixed annuities in most cases charge a variety of asset based fees that are tied to each individual product feature and benefit. Such fees, especially during periods of poor investment performance, can significantly impact the overall performance of an annuity.*

- **Taxes:**

*Ironically the very clear advantage of tax deferral within annuities has a counter impact on annuities versus other investments. Unlike other investments annuities do NOT qualify for lower taxation on capital gain distributions or benefit from what is referred to as a “stepped up” cost basis which provides for the transfer of the value of an asset at its market value upon the death of the owner of such investment.*

## *REVIEW*

Like virtually any financial services product annuities have clear advantages and disadvantages and therefore their use must be carefully evaluated. Generally speaking Cherry Financial Partners summarizes the use of annuities to help clients succeed financially as follows:

- *Annuities may be appropriate for a portion of a clients overall portfolio especially when a principal guarantee or a guaranteed return is demanded by the client*
- *Due to our strong commitment to managed money, selected use of fixed or fixed index annuities are generally recommended*
- *Due to generally consistent although modest interest rates, annuities are seldom the appropriate product for a long term accumulation plan*

## LIFE INSURANCE

As indicated in the insurance section of the Financial Education Modules (Phase I), life insurance can be one of the most confusing and misunderstood financial products. Insurance is defined as an arrangement by which a company gives customers financial protection against loss or harm in return for payment of premiums. Virtually all forms of insurance adhere to this most basic structure except for life insurance, which more often than not is positioned as an investment or accumulation plan. In order to use life insurance most effectively a very basic question must be asked. What really is the loss or harm that life insurance protects? The first and primary purpose of life insurance is to protect against the **Loss of the Income Potential or Financial Replacement of an Individual.**

But, the Life Insurance Industry has taken this basic easy to understand concept and developed a mind numbing array of complicated and confusing products that most clients and many agents do not understand. In our continual commitment to **Help People Succeed Financially**, Cherry Financial Partners wants to help you understand and most effectively use life insurance.

As such, in its most basic form there are really only two kinds of Life Insurance:

1. Term, which is basic death protection
2. Cash Value, which is term plus an accumulation component. To clarify, the accumulation component can be an endless variety of concepts to include a fixed interest rate, a variable interest rate, insurance dividends, actual mutual fund type investments and any variety or combination of these.

Which one is the best solution? That can only be answered by determining what an individual's specific purpose is for Life Insurance. If the answer is to protect against the loss of income due to premature death, which is almost always the case, then the **solution is almost always Term Insurance.**

However, the Industry says, "Wait a minute, it's not that simple" and normally begins an in depth discussion of the unique benefits of life insurance to include the many of the following key points:

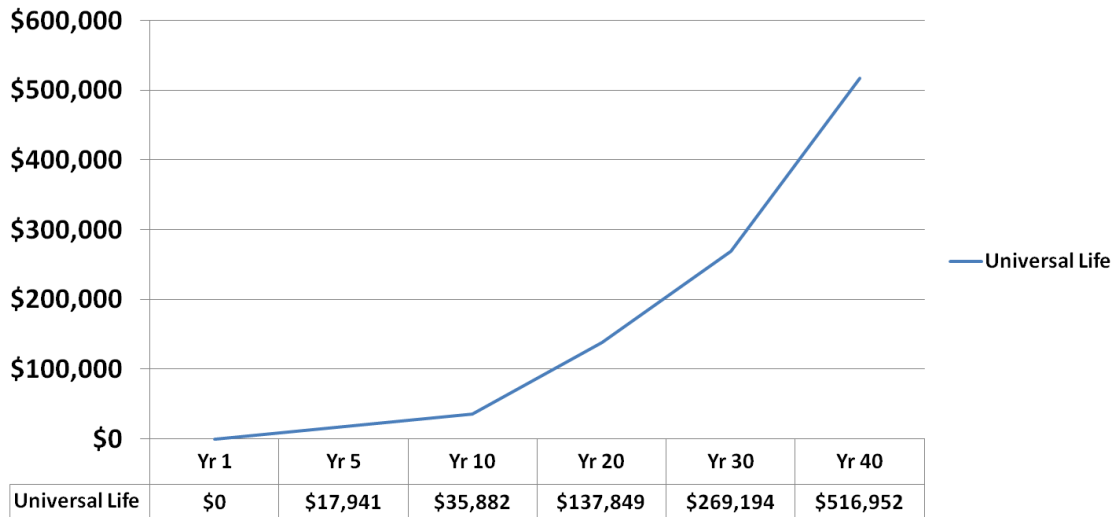
- Term is "temporary" and premiums increase
- You may need insurance later in life for estate purposes
- And most importantly, insurance should be viewed as an investment:
  - *It encourages the "Discipline" to Save*
  - *It Offers Competitive Performance*
  - *Your Investment Grows Tax Deferred*
  - *You Can Distribute Cash Values Tax Free*

All of which is true, however all of which can be addressed with a comprehensive plan designed to achieve the ultimate goal of succeeding financially as opposed to focusing on the single transaction of just buying life insurance. The central basis for buying cash value life insurance rather than term insurance is that life insurance can be used as a quality investment program. So then, let's take a closer look at cash value life insurance as an investment. As mentioned previously life insurance as an investment can be in many forms, for our discussion here we have chosen to demonstrate a common form of life insurance known as Universal Life.

For illustration purposes this is an example of:

- Standard Universal Life
- Fixed Death Benefit, \$1,000,000
- Male Age 40, Preferred: \$6,311 / Year

### STANDARD UNIVERSAL LIFE

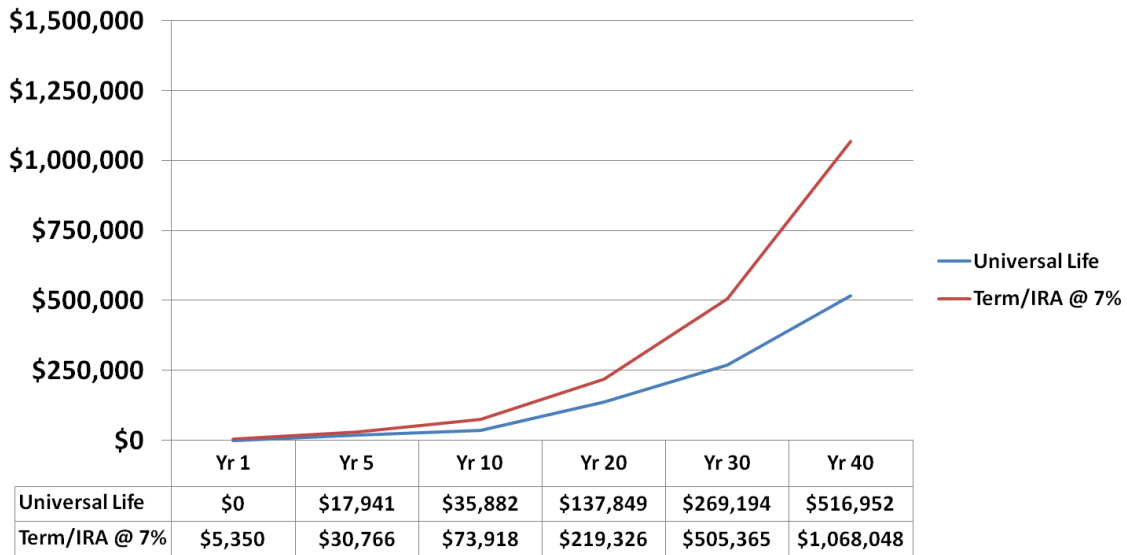


As you can see this policy provides for a Death Benefit of \$1,000,000 and builds up cash values that can be accessed, borrowed or surrendered over the years. However, use of any single component of the policy reduces or proportionally impacts other components of the policy. For example any removal or borrowing of cash value results in an equal reduction of any subsequent death benefit. Also, this illustration assumes only the payment of the face amount and NOT any existing cash values as part of the death benefit. However, there are some policies that may include the cash values and the face amount as a death benefit BUT be assured such policies require much higher premiums or produces much lower cash values. The basic design is still the same and any variance or perceived benefit of one policy type over another is simply a function of individual design and a corresponding increase in cost or reduction in benefits.

Now let's take a look at an alternative approach:

- 30 Year Level Term, \$1,000,000
- Male Age 40, Preferred: \$1,269 / Year
- Roth IRA, \$5,000 / Year @ 7%

### TERM INSURANCE PLUS A ROTH IRA

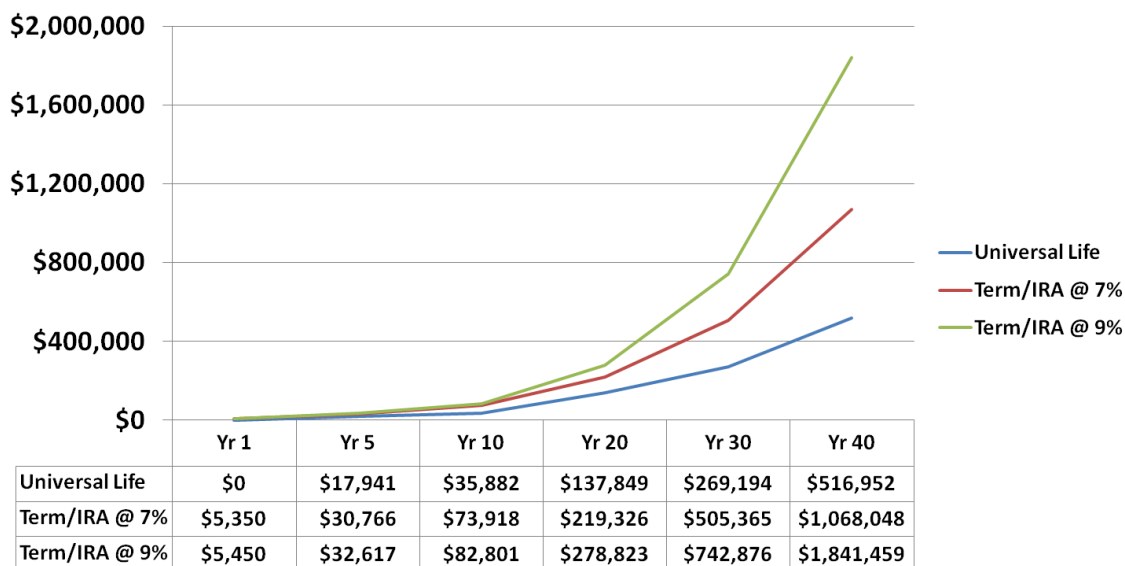


In this illustration the Roth IRA at a 7% growth rate clearly provides the potential for a significantly higher accumulation value. These values allow for full access at any time to the total amount contributed, are distributed to beneficiaries tax free upon death AND the full \$1,000,000 death benefit is also paid to the beneficiaries upon death. This illustration also assumes that a death benefit is continued after the first 30 years so that at a minimum a total of \$1,000,000, to include the IRA value, is payable to the beneficiaries at any time upon death of the insured.

It must be noted that the assumed 7% rate of return in this illustration is NOT GUARANTEED and actual performance can be higher or lower. However, the illustrations for virtually ALL life insurance programs include values that are projected and are not guaranteed except for much lower rates normally in the 1% to 3% range. The previous Universal Life illustration is based on current NOT Guaranteed rates.

What would happen if someone used the "Alternative" approach of Term Insurance with a Roth IRA and was able to achieve a slightly higher rate of return? The illustration below uses the same assumptions and simply projects returns at 9%.

## TERM INSURANCE PLUS A ROTH IRA



Again the potential advantages of a separate investment account are obvious.

### REVIEW

The Bottom Line Regarding Life Insurance:

- *Life Insurance can be used as an investment BUT, there are clearly alternative programs and approaches with the potential for better performance, increased flexibility and superior results.*
- *Term insurance unquestionably provides the most coverage at the lowest price.*
- *But, if you simply “Buy Term” and DO NOT “Invest the Difference” or, If you do not invest in an appropriate program, **You Will NOT Succeed Financially.***

Cherry Financial Partners is committed to educating people and helping people succeed financially. We believe that appropriate education as to how life insurance really works is critical to the ultimate goal of financial success and a complete program that includes the appropriate use of life insurance with a carefully selected and monitored investment program offers the best opportunity for achieving Financial Success.



# The Cherry Financial Education Modules

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## SUMMARY

The achievement of personal financial security may not be necessarily easy but it is absolutely possible. As discussed in the preceding pages financial success has nothing to do with some magic formula known only to a very select few but it does have everything to do with committing to a life course built on solid and enduring financial principles. How you define individual financial success is strictly a matter of personal preference. However, no financial goal of any significance will ever be achieved until a commitment is made to set a course for your individual financial goals and working toward that goal by implementing the appropriate financial principles. We trust the preceding information has assisted you in both defining your personal financial goals and identifying those principles that will best enable to reach your goals.