Introducing "Speed of Wealth's 401(k) Arbitrage™"

How to take control of your current qualified retirement plan and explode the growth at the same time.

By Wayde M. McKelvy
Founder Speed of Wealth

www.SpeedofWealth.com
www.SpeedofWealthSeminar.com
www.SpeedofWealthWorkshop.com

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

4/6/2008

Introduction to 401(k) Arbitrage

Many "Financial Experts" will give you the advice that you should "never borrow from your 401(k) plan." Their *opinion* is that you will be losing the growth on the money while you have it in your hand and that you are paying back the loan with after tax dollars only to be taxed again when you pull it out in retirement.

Here is reality; they are absolutely right! However, the "experts" either do not understand the bigger picture or are delusional when it comes to the returns you are achieving in your current plan. Although we at Speed of Wealth do not recommend having any qualified plan money in a "cash equivalent" type of account, most qualified plan investors do. Whereas when using "Speed of Wealth's 401(k) Arbitrage™" strategy you will find that these paltry returns are easily recouped and more as you will see. Additionally, as I demonstrate in our seminars and workshops, most investors are lucky if their plan is growing at any more than an 8% return annually.

So the first and foremost important point for you to understand is that the interest rate you are being charged on your 401(k) loan *goes directly to you!* Most plans will charge prime rate or prime rate plus one percent. So let's assume that rate is 7%. If you are credited with the interest you are paying, then at minimum you are guaranteeing that you receive 7% on the money that is borrowed.

Secondly, as you make payments on your loan, this money goes directly back into **your** plan, plus the interest you paid, and starts exactly where it left off. In other words, however you have your monies allocated inside of your 401(k) at the time of taking the loan, each loan payment will be allocated in direct proportion to the money remaining in your plan (if not then simply make a call to move the money). So the minute you make a payment, that money starts earning the same returns as the rest of your plan.

The key to remember is that, much like home equity, when you borrow the money, you are <u>not</u> taking the loan out to consume it, but rather to *reinvest the money*. More importantly, at the end of the term of the loan (i.e. 5 years), you have freed up a boat load of money that is no longer subject to all the rules and limitations that a qualified plan is subjected to.

Now, this freed up money may no longer be in a tax-deferred environment, but if you understand the Speed of Wealth perspective on this issue, *who cares if you are receiving better returns*! However, if tax deferral is important to you (and even we agree it should be) this money can now be repositioned into the "Family Insured Banking System™" or directly into real estate; both of which provide tax-deferred accumulation.

<u>IMPORTANT:</u> The power of "401(k) Arbitrage" is that it allows you to borrow from your current 401(k) or other qualified account, put that money to work in an arbitrage environment, and allow the outside investment to pay for <u>most</u> of your monthly payment.

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

Why would anyone want to do this you say? Simply put, it does not "stunt" the current growth of your 401(k) (in fact, in most cases it enhances it because you are assuring yourself returns based on the rate of interest you are being charged on the loan). At the end of the loan term you have "freed" up the money that you borrowed AND you can use this new found money to invest anywhere you would like without the rules and limitations associated with most of these qualified plans.

To illustrate, I have included an analysis with this short report to walk you through the logic and provide you some real numbers. As I progress here please follow along with the spreadsheet (you will have to flip back and forth as we go along).

Let's assume that you are "Mr./Mrs. Super Investor" and that your "Current Average Returns in 401(k)" (top line of spreadsheet) are 10%. You have a current account balance of $100,000.

Plan rules vary depending on the provider/administrator and employer, but you are typically allowed to borrow 50% or $50,000, whichever is less. In our example, because your balance is $100,000, we will borrow the maximum of $50,000. This leaves a balance inside of your plan of $50,000 that will continue to receive the 10% returns (hope the market doesn't swing down don't you).

***Important Note**: As of Friday March 28th 2008 the S&P 500 index,(the broadest measure of stock market performance) is exactly where it was at this time in the year 1999! For people that are "math challenged" that simply means that if you had "invested for the long term" like most planners advise, and received returns equal to the S&P 500 index, which most people did not achieve, you would have absolutely **zero growth** in your accounts! Now that is investing for the long term, or is it? And that does not include the fees you were charged and the fees your planners charge.*

Most plans will charge you an interest rate at, or slightly above, the prevailing prime rate. In our example we are assuming that you can borrow this money at 7.5%. Remember that this assures you that you will receive a 7.5% return on *at least that portion of funds that you borrowed from the plan*. I am being very generous in showing that you earn 10%, but even more shocking is that the average American investor believes they are earning 13.1% according to a survey done by J.P. Morgan. This is of course ludicrous, but you may still believe it (if so, attend one of our seminars and/or workshops and we will enlighten you with the truth; Go to www.SpeedofWealth.com for more information).

The typical term on the 401(k) loan is five years or 60 months as shown in our spreadsheet. The challenge with 401(k) arbitrage is that the investment I recommend to you pays simple interest. Your loan, on the other hand, is amortized over five years. So you are not only paying back interest every month, but part of the principal as well. This means that, although I am creating arbitrage between the new investment and the 7.5% rate you are being charged for the loan, the payment back to the plan will be more than the monthly in-flow from the new investment. Don't worry, we will attack that challenge in just a moment.

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

Now that we know the basics we can solve for your monthly payment. We know the interest rate is 7.5%, the loan amount is $50,000 and the term is sixty (60) months. Plugging these numbers into our handy dandy financial calculator we arrive at a monthly payment of $995.67. This is what you will have to pay yourself back each and every month. Don't panic, this seems like a lot but we will offset most of it in just a moment.

My recommendation to you is to take this $50,000 and invest it with Mantria Financial, LLC (Mantria 17). To learn more about this exciting investment opportunity visit www.SpeedofWealth.com and order the free "Bankers Nightmare" information kit. Rest assured you will be praising the investment gods afterword.

This investment pays a real return of 17% annually and is tied to deeds of trust. Remember that the primary goal at Speed of Wealth is to teach you to become ***your own banker*** and start a banking system. In this investment you will receive 1.42% of your total investment on a predictable monthly schedule. In other words, you will receive a ***monthly*** check in the amount of $708.33 based on your $50,000 investment.

It is important to note that this income will be taxed as ordinary unearned income. In our example I am using an effective tax rate of 19%. Please understand that no specialist at Speed of Wealth offers tax advice. You should therefore seek out competent (and I do mean competent) tax advice from a qualified, licensed practitioner. I use this for illustration purposes only.

After holding back the taxes you will be liable for at the end of the year, you are left with a net, after tax, payment of $573.75 ("Net Monthly Return").

In this example I show you contributing $500 per month to your 401(k) plan ("Current Monthly Contribution"). ,This is of some importance later. I show your "Current Pay" being $100,000 a year and your employer contributing 6% of your pay to your plan, or another $500 per month for a grand total, monthly contribution of $1,000.

Does this plan resemble yours? If not, no matter. I am simply showing you a technique but do recognize that every individual's situation is different. *This is why it is imperative that you meet with a Speed of Wealth 401(k) Specialist before trying this on your own.*

It doesn't take a rocket scientist to figure out that if your monthly 401(k) loan payment is $995.67 and your net, after tax return on your new investment is $573.75 then you are upside down each and every month a total of $287.34. So how do we handle this? Well, there are several ways to handle this extra expense:

1. **Start your own business** – We would be happy to show you a simple business to start that will allow you to increase your annual tax deductions. This increase in tax deductions, for things you are already paying for, can easily amount to this extra $287.34 per month. Again you will need to speak to a professional tax advisor, but suffice it to say that Uncle Sam is generous to business owners. In fact, it is our belief at Speed of Wealth that every American should own his or her

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

own home-based business and preferably one that makes you money. The business we can show you can easily produce this extra $287.34 each month without much effort on your behalf. If you would like more information on this great business opportunity please email Donna McKelvy at dmckelvy@comcast.net. She would be happy to give you a short presentation that will excite you to no end.

2. **Reduce your monthly <u>contributions</u> to the plan** – Not my favorite, but remember you are taking control of your retirement plan. In fact, in the second section of this report I will show you why you may no longer want to contribute to this plan at all. People, like myself and others (i.e.the likes of Robert Kiyosaki and Donald Trump), that preach that these plans are a waste of time, are always bashed by the status quo “financial planner” for giving this advice. This is because traditional planners typically work with very passive investors who have little to no knowledge of how to invest successfully and will never build wealth. These people work for the masses and slowly drain their clients’ savings with their “invest in mutual funds for the long term and diversify” chronic advice (Why are you paying these guys exactly? Just curious).
3. **Suck it Up** – heck, you probably need to be contributing a lot more to your retirement plan anyway. With this model you are only going to be out of pocket $17,240 at the end of five years. If you look at the second half of the spreadsheet you will see that at year five you have paid an additional $17,240 out of pocket (see column “Additional Payments”). This equates to $287.34 for sixty (60) months in case you were wondering. But if you look just to the right of that number you will see that you “freed” up $50,000. In other words, your $17,240.40 out of pocket has *grown to* $50,000 in just 5 years! <u>This is a return on your investment of 190.02% or, if you divide that number by five years, an Internal Rate of Return of 38% annually.</u> I would bet dollars to donuts that your current plan is not doing anywhere near this well. In fact, if you were to contribute periodic monthly payments of $287.34 to an investment in a compounding environment with a return of 10% it would only grow to $22,148 in five years. My method more than doubled it. If you are still questioning my approach, this one section alone should have grabbed your attention like a 100 mph gust of wind!

So after five years you have paid back your loan. Your plan (“Current Plan” column), as is, would have grown to $242,613. My proposed plan (“Proposed Plan”) has grown to only $237,116 a whopping loss in the plan of $5,497. However, you now have $50,000 sitting on the sidelines in extra growth (“Freed up Money Growth Compounding”).

If I add this $5,467 loss to your extra out of pocket expense of $17,240 your total out of pocket expense of this proposed plan is $22,737 for a gain of $50,000. That is a gain of $27,263 divided by your out of pocket expense of $22,737 for *a total five year return of 120% on your money.* Again, divide this by five years and you come up with an IRR (Internal Rate of Return) of 24% per year. This means that if you go back to day one you received 24% on your money (this of course is the time value of money).

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

Ask yourself, and answer honestly; do you really think that your current plan is going to more than double your money in five years? Using the rule of 72, we know that if you are receiving a 10% return in a compounding environment it will take 7.2 years to double your money (72 divided by 10). My plan *more than doubled* your money in only five years.

The key now is that your 401(k) plan is almost entirely intact at the end of five years (after repaying that loan), but you now have $50,000 sitting outside of this qualified environment, so you can invest it anywhere you choose. I would recommend that you continue investing in the trust deeds that are paying 17%. Even though the gains are taxable, at the end of the year your net return, after taxes, is still a whopping 13.6%. In my spreadsheet example ("Freed up Money Growth Compounding") I show that $50,000 growing at a compounded annual rate of 13.6% compounding will be worth $1,211,793 by year thirty (30).

Bottom line is that by year thirty, using just one "401(k) Arbitrage" maneuver, your money in aggregate has grown to $5,397,519 compared to your current plan of $4,263,065. *You have $1,134,454 more money at retirement and it cost you a whopping $17,240.* That is truly "Moving at the Speed of Wealth™"!

If the light bulbs are going off, then it should be apparent that if this maneuver works once, it would work a second time and a third time and so on. In other words, you should be paying back the loan and pulling it right back out as another loan, right? The second time you will have $100,000 earning you 17%. So you will not have to come up with any spread. In fact, you will have positive cash flow in your second round. Assuming interest rates remain the same, and you are paying 7.5% on your second loan, you know your payment will be the same $995.67. Now, however, you have $100,000 working at 17% or a net after tax monthly in-flow of $1,133, as well as a positive cash flow each month of $137.66, and you are going to free up another $50,000 at the end of the tenth year (5 more years).

So the only real question becomes, do you believe you can get 17% on your money? If not, attend a workshop or order "The Bankers Nightmare" kit at www.SpeedofWealth.com. This plan is only for people that thing BIG and do not believe that "if something seems to good to be true, then it probably is." That is an unfortunate frame of mind and some deeply entrenched propaganda handed down by the rich for centuries. In fact, rich people won't accept anything less than 15% on their money while middle class slowly seeps into obscurity over time. Are you really willing to allow your paradigms and conditioning to lead you to financial ruin?

So as not to overload your circuits, understand that I only showed one loan on the included analysis (i.e.spreadsheet). The fact is, that once you understand the power and strength of this plan you are going to want to pull out a new 401(k) loan every *five years*. As I said earlier, you will have no out of pocket expenses on the second go round as well as any subsequent loans. The growth is mind boggling.

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

There is one disadvantage to this strategy that you must be aware of. Of course, I do not think of it as a disadvantage but you may seem to think so.

If you were to leave the place you are employed, either by your own choice or by the choice of your employer, then the loan may become due and payable in full. The investment I recommend is not liquid for three years so you won't have the ability to pay off the loan. Many plans will simply allow you to continue on and keep your current plan in place but some may call it due.

Bottom line is that if you choose not to pay back the loan the IRS will call it a early distribution and you will owe taxes on the loan amount plus a 10% penalty if you are under the age of 59½. In our example you may owe an additional $14,500 in taxes if the loan is called at the end of the year. This may sound like a negative but if you are a Speed of Wealth student you may come to realize that it's OK to roll these plans out and pay taxes and penalties. Especially if you can gain control of your money and receive better returns on your money.

I assure you that there are investments available that will blow away the returns you are receiving from your mutual funds within these plans. You just need to be educated and that is the whole purpose of becoming a "Speed of Wealth Club" member, to teach you what you don't know and teach you the strategies of the wealthy.

Maybe you shouldn't contribute to a qualified plan at all!

Just for kicks, what are the advantages of contributing to one of these plans? Let me take a stab at what you may be thinking:

1. **Tax deductions**
2. **Tax-deferred growth**
3. **An "automatic" savings plan**
4. **Employer matching contributions**

Did I answer that question correctly for you? Was I right on the money? The truth is, in my opinion, only one of the four reasons above is legitimate…the automatic savings plan.

Let's explore the other three so-called advantages for a moment.

Tax Deductions – This is without a doubt the dumbest advice a planner or CPA can give to a person. I have to assume that you will want to have the same or better standard of living in retirement as you enjoy now. If you earn $100,000 today and you do in fact want the same standard of living, wont you need that same $100,000 a year in retirement as well (this of course does not factor in inflation). The so-called experts will argue that you will not need as much money in retirement as you need in your working years. They will argue that your kids are moved out and that you have paid off most, if

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

not all, of your debt. This is pure hogwash. The fact is that you will *probably need more money in retirement than you need now*. What are you going to do with the new found ten hours a day that you didn't have during your working years? Are you going to sit around smoking cigarettes and watching Captain Kangaroo? Of course not, you are going to stay active. You will need to fill up that time with activities; and I have bad news for you, activities cost money. Golf is pretty darn expensive as is traveling. I guess you can sit around and play cards all day, who am I to judge. On top of that, old expenses will be replaced with new expenses. My parents, for example, spend over $750 each month on medicine alone, and this over and above their retirement entitlements.

The major health-care expenses faced by retired households include premiums for Medicare Part B (which covers physician and outpatient hospital services) and Part D (which covers drug-related expenses); co-payments related to Medicare-covered services; and health-care services that are not covered by Medicare. In 2007, the Centers for Medicare and Medicaid Services estimated that Medicare out-of-pocket expenses amounted to $3,800 per year for a single individual. *For a couple, the amount would be $7,600*. In addition to the Medicare expenses, are expenditures on items not covered by Medicare, such as dental care, eyeglasses, hearing aids, etc. These items may amount to another $500 for a single person, $1,000 for a couple. These figures are averages; health-care spending can vary significantly by individual and households. Those who have bad health habits and/or chronic illnesses likely incur higher costs, while those who have good health habits and/or few illnesses would, ideally, spend less.

Let's look at this from another angle. Assuming that we round the number to $10,000 per year for a couple, and assuming a twenty-five year retirement, you can expect to pay *$250,000 of your own money on medical expenditures alone!* According to Ibbotson, the average Middle American thinks they can retire on an accumulated nest egg of only $499,999. Whoops, half of that is wiped out on medical expenses alone and that's if your health is good.

And no surprise, these annual health-care costs are projected to grow over time. The Centers for Medicare and Medicaid Services publish annual premiums for the various components, from which growth rates can be calculated. The growth rate is projected to average 5.9% per year for the next 20 years and 4.9% thereafter. Personally, I think these are very low estimates because we know inflation is much higher than what is reported to us (If there are any doubts about this, read the report "True Inflation" at www.SpeedofWealth.com).

As for long term health needs, I haven't even addressed this issue yet. According to numerous studies, more than two thirds of those over age 65 will require long-term care at some point in their lives. Of this group, 40% will require care for two years or more. With an average daily rate of $213 ($77,745 a year) for a private room in a nursing home in 2007, nursing home care can be financially devastating. Even those lucky

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

enough to remain in their homes will find that home health aides are expensive. In 2006, the average hourly rate for a home health aide was $19/hour.

There are certainly a couple of expenses that will go away once you retire. First, you will no longer be making contributions to a retirement plan. Secondly, you will no longer have the expenses associated with work; this would include transportation, clothing, meals, etc. Assuming that you can relax knowing that you can survive on 20% less money than you make now, do you still think you will be in a lower tax bracket?

Let me ask you another important question; do you think taxes will be lower, about the same, or higher in the future? I am not even going to go into my opinion because it could be another report. The truth is that we do not know, but my guess is, that with all the baby boomers retiring and health care costs going nowhere but up, there is a very good chance taxes will be (much) higher.

All of this was discussed to make a very important point; If you think your income needs will be lower in retirement than they are now, than you have been severly mislead. Sure, you may start slowing down when you hit 75 years old, but that's a few years away from the day you retire.

So today you make $100,000, and I concede you can probably maintain the same standard of living on 20% less or $80,000 a year (of course I really don't believe this, but I will go along with the "professionals" for the moment). Once you understand that true inflation is closer to 6-8%, then you will realize that this $80,000 today equates to the same as $143,268 per year at a meager 6% inflation rate in 10 years. In other words, if your standard of living requires an $80,000/year income today, you will need $143,268 in annual income in ten short years at only a 6% inflation rate. Understand that the government currently adjusts taxes for inflation, <u>*but*</u> they adjust it by the government's *published inflation rate,* which has been around 3% for quite some time. Things are looking worse with every word I write, but don't worry, we can fix it. But only if you are prepared to <u>*play to win*</u>.

OK, so what does all of this mean? It means you are extremely unwise if you believe you will be in a lower tax bracket in retirement than what you are in right now. Your tax bracket is likely to remain the same or may even be higher. So let's look at this advice to "take tax deductions now."

Let's assume that you are in the 33% marginal federal and state tax bracket (do not attempt to debunk me by bringing up "effective" tax brackets. Taxes are taxes, and what I am about to show you remains a fact). As you know, when you contribute money to a qualified retirement plan, such as a 401(k), the money deposited is tax deductible. This, of course, was one of your arguments in favor of these plans.

Let's assume that you contribute $6,000 each and every year for the next thirty years and your money grows at 8% on average. At the end of the year you deduct the $6,000

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

from your tax return and it comes right off the top of your income. You "save" $2,000. In other words, this is $2,000 you do not have to send off to Uncle Sam and ordinarily have to deposit with the United States Treasury Department. Money not sent to Uncle Sam is real money in your pocket; it is a savings. In thirty years you "saved" $60,000 in taxes. Not bad, again this is real money to you.

Now it's time to live off of your savings and accumulated earnings. Your money at $6,000 a year growing on average at 8%, has grown to $734,075. Good for you, you are one of the few Americans that actually saves money. Your biggest fear is running out of money before you die so you make the mistake most Americans make and decide you can live off the interest alone and not touch principal (this is a mistake because, once again, you are not factoring in inflation). You decide to take the interest you earn each year, 8%, as a withdrawal to live on. 8% of $734,075 is $58,726. Don't worry, you probably have another $24,000 coming in from social security so you are up to the $82,726 that you think you need to keep the same lifestyle. (Of course this is thirty years down the road and this $82,726 at a 6% inflation rate is the same as $14,403 in today's dollars, but that's for another discussion); back to our example.

You withdraw this $58,726 and low and behold, you are in the same tax bracket in retirement as you were during your working years (as discussed above). You are taxed at 33% on this money because it is last money in and your tax bill equals $19,380. Your net withdraw is $39,346 (are you feeling sick yet).

I stated above that in thirty years of taking the tax deductions your total savings equaled $60,000. In the very first year you paid back over $19,000 of this savings to Uncle Sam. *In three short years of retirement, you have paid back all of the savings you enjoyed along the way.*

I know what you are thinking because your planner planted this seed. OK Wayde, I understand that I shouldn't take the tax deduction now, I would probably be better off opening up a Roth IRA or Roth 401(k) (if your employer even has such a plan).

Apples to apples folks, there is absolutely no difference, dollar for dollar, between a Roth plan to a traditional plan, providing you are in the same tax bracket at retirement and in the exact same investment.

Truth is a Roth is better if you think you will be in a higher tax bracket at retirement and a traditional plan is better if you think you will be in a lower tax bracket at retirement. It really is that simple. This is an argument I will take on with anyone and win every time. A Roth does provide the added benefit that you are not required to take out distributions at the age of 70½; nice to have, but still not optimal.

The plain truth is that the only way you are going to keep that lifestyle is to get better returns on your money and use the techniques I teach to build wealth. *You need to quit trying to beat the system and understand the system if you expect to win.* If you are

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

afraid of risk today, just wait until you reach retirement with only $499,999 saved; then talk to me about fear. You will live in fear every day for the rest of your life, just ask my parents.

So much for the benefit of tax deductions!

Tax-deferred growth - Without a doubt, tax-deferred growth is a major plus. In fact, I always preach that you should only invest in a tax-deferred or free compounding environment so I have to agree with this one…to a certain point. After all, since I have already debunked the tax deductions advantage, wouldn't *tax-free* compounding growth be better? Not necessarily, as I stated earlier it depends on the tax bracket you will be in down the road. Because you have no way of knowing what this will be, then it really doesn't matter much at this point. With any luck, you will be in the highest tax bracket possible at retirement (this means you are making a lot of money).

The truth is that you want your money compounding tax-free or deferred if at all possible and a qualified plan is one of the few places you can achieve this phenomenon. The problem is not tax deferral, the problem is that your returns are pathetic. I mean come on, do you honestly believe you are going to win the game earning 4% returns? Chances are, you are earning less than this in your plan, whether you believe that or not.

The problem with these plans is that you are limited as to where you can invest and you are not truly diversified. Stop your screaming, I know you *think* you are diversified, but are you really?

Let's see, you are in large cap stocks, small cap stocks, bio-tech, utilities, foreign, etc. Are you really diversified? No, you are *in the stock market and as the tide goes so does the ship*.

Three weeks ago I was flying on a plane and watching CNN as the stock market tanked. Funny thing, almost every single stock was red. It didn't matter which sector it was in, the entire market was down. Some sectors may be down less than others, but the point is the entire market was down. When was the last time your qualified plan gave you the option to invest in real estate? I'm betting other than maybe a REIT…NEVER!

The good news is that as a Speed of Wealth Club member, not only will I show you what business to start and how to save money on taxes, but I can show you how to set up a self-directed 401(k) plan as well. You really need to see this! Now we can start to get you real returns.

You see, I am not opposed to 401(k)'s and other qualified plans, I am opposed to your limitations and puny returns but, once again, this is another topic.

To sum this up, tax-deferral is great, bad returns are not so great!

Automatic Savings Plan – I have no argument here. This is the greatest advantage to qualified plans. You know the old saying; "out of sight out of mind." If you cannot touch

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

the money it makes it very difficult to spend. My only rebuttal would be to convince you to get more disciplined because in just one moment I am going to show you why you probably don't want to contribute to these plans at all.

Employer Match – Do I ever get an earful on this subject! "*You cannot beat 100% returns.*" That is, if you put in $500 a month and your employer matches your $500 with another $500. This is, of course, a return of 100%. The problem is that it's only a 100% return *for that one instance*, then the money goes into the investments that are providing you with low returns.

Are you ready to be enlightened? Let's go to our second spread sheet and believe me, this will not take very long.

You can see on this sheet that you have a $100,000 balance ("Current Balance"), this is not relevant, but I had to choose some number. The next line indicates that you are contributing $500 per month to your plan AND that your employer is matching you with an additional $500 for a total monthly contribution of $1,000. You are receiving an average of 8% return inside your plan, which based on lots of case study, is probably laughable. If you really believe you are doing better, then we need to talk, I know those Enron employees were doing better than that.

The next line ("Monthly Payments minus Matching Contributions") shows you making contributions of only $500 to an outside plan with no matching contributions, but in this investment you are receiving a 13.6% after tax return ("Outside Investment Returns"). In other words you are actually earning 17%, but after paying 20% in taxes, your *effective* return is 13.6%. So as you see the money grow, understand that it has already been taxed and you will owe no more taxes on the growth.

Column one shows the year of the plan stretching out for thirty years. Column two shows you how your plan ("Current Plan") will grow compounding tax-deferred with your $500 contribution, plus a match of $500 from your employer for a total of $1,000 per month. Remember that we started with a balance of $100,000 and you are receiving an 8% average return. Column three ("Current Plan After Taxes Owed") shows your current plan after paying 20% tax on your growth. In other words, the true worth of your plan. The "Cumulative Tax" column shows the deduction that you get to keep out of the hands of Uncle Sam at the end of the year. This is important if we are comparing apples to apples.

The next two columns illustrate my point and to lay that out, here is the point of this section;

The matching contribution does not mean squat if you can GET BETTER RETURNS ON YOUR MONEY!

Remember that I am now showing you starting with a balance of $100,000 and only making a $500 monthly contribution; no employer match, but you are receiving a *13.6%* after tax return on your money as opposed to 8%. The "Proposed Plan" shows growth of $120,869 in the first year, *but* you still owe a 20% tax on your original $100,000. This

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

is illustrated in the next column that reads “Proposed Plan After Taxes Owed.” So you will see a total of only $100,869 in year one. This is all your money after taxes have been paid.

By contrast, in the very first year with my proposed plan, I beat your plan, *with a 100% matching contribution,* by $4,202.79 as illustrated in the last column “Difference Accounting for Tax.”

That’s right. In the very first year my proposed plan beat yours without the matching contribution all because you received better returns. The type of returns that are not available to you within your current qualified plan because your choices are severely limited.

Although I do not show the following in this analysis, it’s important to note that even if you were able to squeeze out a 10% average return, my proposed plan beat your current plan in year one by $2,355.82. If I were very generous and assumed you could average a 12% return, my proposed plan beats your current plan by year four by $475.62.

Going back to the spreadsheet, where you are receiving an 8% average return you will see at the bottom right hand corner that my proposed plan beat your current plan, with matching contributions, by over 6.1 million dollars. If you were fortunate and/or sophisticated enough to receive an average return of 12% over those same thirty years, my proposed plan would still beat your current plan with matching contributions, by over 2.5 million dollars.

Keep in mind, that not only did my plan beat yours hands down, but if you take advantage of my proposed plan (a.k.a. get better returns), then you were not handcuffed by a bunch of rules and regulations telling you what you can and cannot do with *your* money! How’s that for power and control?

But this still all boils down to one simple question; “do you believe you can get better returns?” The answer must be a resounding yes! And you can do it safely and securely with real collateral by investing in Deeds of Trust or Mortgages and becoming the banker.

If you haven’t already done so now would be a good time to read my report “The Bankers Nightmare” and listen to my 30 minute audio CD where I talk about this great opportunity. Once again you can find that information at www.SpeedofWealth.com.

So what is the moral to this story? Don’t believe everything you have been told. Conventional wisdom is failing you and you are a victim of other people’s greed unless you make a decision to empower yourself and take control. Continue to educate yourself and a whole new world of wealth building opportunities reveal themselves to you.

Conclusion

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.

In this report I have shown you how to explode your current qualified plan by using "Speed of Wealth's 401(k) Arbitrage™" strategy, and I hope I have dispelled the myths associated with the benefits of qualified plans and especially matching contributions.

Whether you take my advice and implement these plans or not is entirely up to you, but I bet you are much wiser and, at the very least, considering the realities and possibilities of what I've just shared with you. The investment world is not at all what it seems to be. Do you think that there may be some benefit to large brokerage houses and mutual fund companies to spend millions in advertising dollars to keep you convinced that you are doing the right thing? Do you think fee-based financial planners and/or commission based financial planners may stand to gain something from you believing the propaganda passed down from generation to generation?

It's too bad I don't have the marketing budget of a big mutual fund company, because if I did I would spread this message far and wide. Of course, these large companies may have me "quieted" for turning people against them, but let's be real; only one in ten people who read this are going to understand what I just taught them much less take action.

For those of you that ***are*** ready to take action, here is what I recommend; become a member of "The Speed of Wealth Club" today! Not tomorrow, today! Membership is FREE and you will never pay a dime in membership dues, planning fees or commissions. Help me spread the word and share these ideas with people you care about, and watch your wealth flourish in a multitude of ways!

Once you become a member of the club, it is at that point that I can speak freely to you and be completely transparent about our investment opportunities including trust deeds that pay a very nice return. You must be a member first and join us on teleconference calls, attend a seminar and workshop in your area, or join in on webinars, etc. As a member you can view all of my educational material right on line immediately.

When you are ready to take action you can simply sign up as a member at www.SpeedofWealth.com, complete the application and suitability questionnaire, and a Speed of Wealth Specialist will contact you directly. It's important to know that we do not accept all applicants. We are very picky on whom we choose to work with…I learned my lesson a long time ago to only work with people that truly want to build wealth and people that take action.

I am looking forward to enlightening you more in the future and helping you to build the lifestyle that you deserve! Until next time…remember to live like you will die tomorrow and plan like you will live forever!

© 2007-2008 Retirement TRACS, LLC and Wayde M. McKelvy. No reproduction of any kind is allowed without the express written permission of Wayde M. McKelvy.