EVERYTHING YOU'LL EVER NEED TO KNOW FOR THE REST OF YOUR LIFE ABOUT

INVESTING

. . . REALLY!

Table of Contents and Checklist

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

Table of Contents and Checklist (continued)

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

TABLE 1 – MY ASSETS NOW AND LATER

Fill in future years in 5- or 10-year intervals. Complete the first column with the approximate values of your current assets and then make bold, ambitious projections in the future columns. Bold. Ambitious. Big.

Assets	**2014**			
Emergency Fund				
Other Cash Equivalents				
Principal Residence				
Investment Real Estate				
Stocks and Mutual Funds				
Private Equity				
Precious Metals and Collectibles				
Other Assets (specify):				
1				
2				
3				
4				
5				
6				
7				
8				
Total Assets				

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TABLE 2 – MY LIABILITIES (DEBTS) NOW AND LATER AND NET WORTH

Use the same 5- or 10-year intervals. Complete the first column with the approximate values of your current debts and then make bold, ambitious projections in the future columns. Bold. Ambitious. Small.

Liabilities (Debts)	**2014**			
Bank overdraft (Ha!)				
Credit Cards				
Principal Residence Mortgage				
Investment Real Estate Mortgages				
Vehicle Boat and RV Loans				
Student Loans				
Margin Loans				
Other Debts (specify):				
1				
2				
3				
4				
5				
6				
Total Liabilities				

Net Worth (Subtract Total Liabilities from Total Assets)				

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TABLE 3 – MY SPENDING NOW AND LATER

Use the same 5- or 10-year intervals. Complete the first column with the approximate values of your current spending budget and then make bold, ambitious projections in the future columns. Bold. Ambitious. Small.

Spending Category (SOURCE: BLS)	**2009 Average**	**2014**			
Housing - shelter	$10,023				
Pensions, Social Security	$5,027				
Housing – utilities, fuels, public services	$3,477				
Food – food at home	$3,465				
Transportation – vehicle purchases	$3,244				
Transportation – vehicle maintenance and insurance	$3,130				
Healthcare – insurance and out-of-pocket	$2,853				
Entertainment	$2,698				
Food – food away from home	$2,668				
Transportation – gasoline, motor oil	$2,384				
Apparel and Services	$1,881				
Cash Contributions (Charity and Political)	$1,821				
Housing – household furnishings, equipment	$1,797				
Education	$945				
Housing – household operations	$984				
Personal Care	$588				
Alcoholic Beverages	$457				
All other Spending	$1,874				
Total Spending	**$49,316**				

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ON BEING WILLING

At this point I like to address the quality of being willing. Being willing is a state of being that is present either 100% or 0%. There is no partial degree of being willing. If you are 100% willing, you will do whatever it takes to make something happen. Even if it means a serious inconvenience or effort on your part. If you have reservations or limitations on your willingness, then you are not willing. If you are not 100% willing you may be predisposed, but you are not willing.

So when you assign "Who's in Charge" in the Table of Contents/Checklist, only assign to yourself the tasks for which you are willing. 100% willing. If you have any reservations, the tasks will not be performed by you with the necessary level of commitment. Assign them to an expert, and be willing instead to do what it takes to find the right expert, spell out the tasks completely, give up control to the expert, and monitor the progress toward the goal.

NOTES AND CALCULATIONS:

I am 100% willing to perform the tasks assigned to me ___________________________

I am 100% willing to find experts to handle the rest ___________________________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

ON RAISING SPENDING AWARENESS

No one has perfect spending habits. Ask yourself honestly, would you like everyone in the world to know exactly where you have spent all your money for the last few weeks? Chances are you paid for more than a few guilty pleasures that would be embarrassing to share with even your spouse or most intimate friend. There is nothing abnormal or dysfunctional about that. But chances are, you can't accurately recall and list everything you spent money on in the last year. Try this experiments on your own: try to remember everything you purchased yesterday without looking at your wallet, checkbook, credit card or bank statement, or any other memory aid.

The best way to raise your awareness on spending is to track your expenditures using a software program such as Quicken or QuickBooks. If you aren't already doing this, and you are willing, track your expenses for at least a month or two, just to see where every penny goes. Make up meaningful categories of spending that will inform you about your choices. For example, if you suspect that your restaurant habits are something you would like to know more about, make up separate categories for the different reasons you eat at restaurants:

Restaurants – FM (fast meals when I don't have time to cook)
Restaurants – For Romance
Restaurants – Emotional eating when I'm depressed
Restaurants – Celebration
Restaurants – Business Entertaining
Restaurants – Treating myself
Etc.

Track all your expenses, credit card charges when you make the purchase, and even the cash in your pocket. If you don't get a receipt for something, tear off a piece of paper and stick a note in your wallet. Record all your cash daily and reconcile to the balance in your wallet. Don't try deliberately to make changes in your spending, just observe your spending patterns and raise your awareness. You may be surprised by the areas where you spend money, and my the subtle changes in behavior that result just from raised awareness.

NOTES AND CALCULATIONS:

I am 100% willing to track my spending immediately ___________________________

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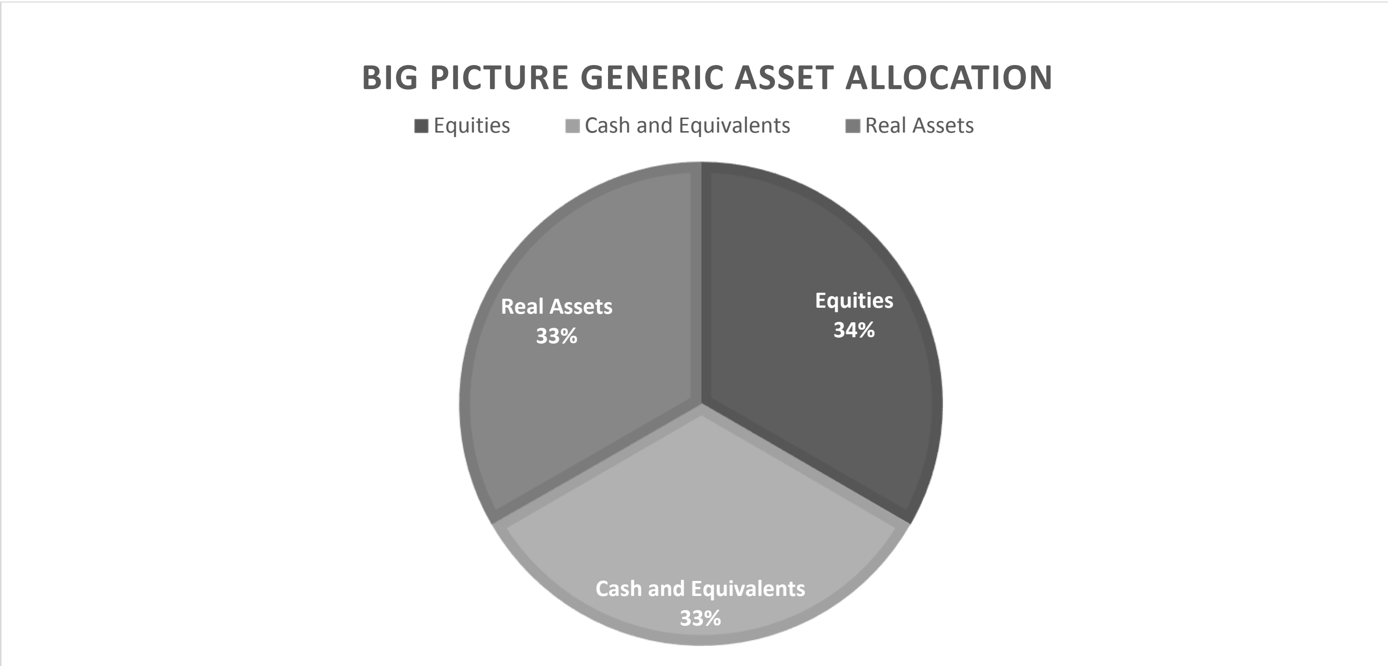

The Chart above represents the "Big-Picture" generic asset allocation plan.

REAL ASSETS – Real Estate, precious metals, art and collectibles

EQUITIES – Stocks, mutual funds, privately-owned businesses

CASH and CASH EQUIVALENTS – Currency, checking and savings, CDs, and bonds

This perfectly balanced portfolio operates under the assumption that the owner has no special skills or talents, and that the current market cycle is very stable. There is no way to know which category is safer or more likely to generate a higher return.

Variations in the weighting of the categories are appropriate in the following circumstances:

1. Limited portfolio size does not permit effective balancing
2. Life cycle of the investor dictates disproportionate allocation
3. Market cycle conditions have made one category temporarily unattractive
4. The Investor has unique knowledge, skills, talents, or other resources that give him an advantage in one category and minimize the risks created by imbalance.

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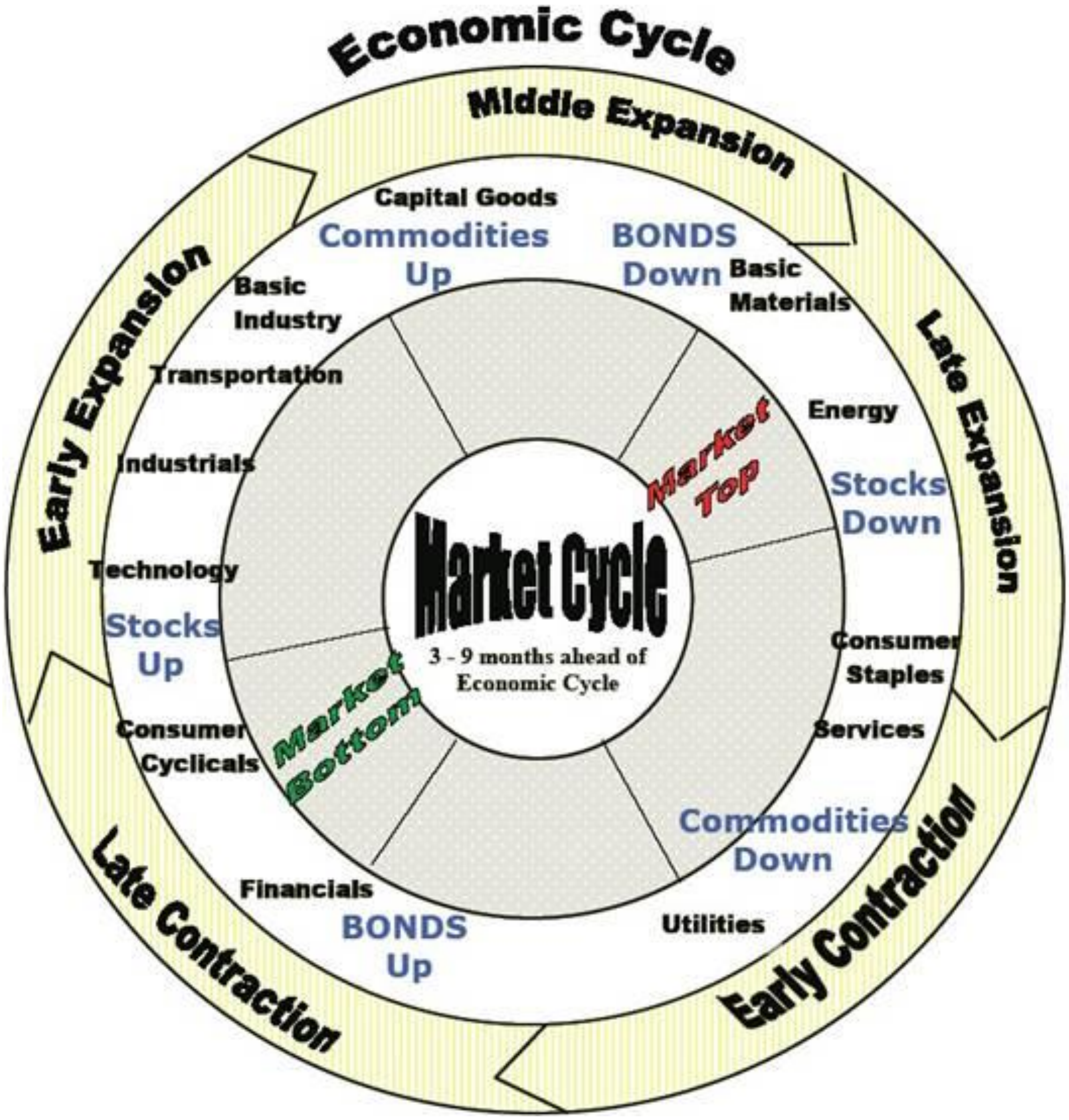
The Market Cycle



This model assumes that the market moves in a cyclical pattern as the economy expands and contracts, and indicates how the asset categories are going to react. While the model has some basis in reality, the market really moves in unpredictable directions and the behavior of the asset categories is not always consistent with this model.

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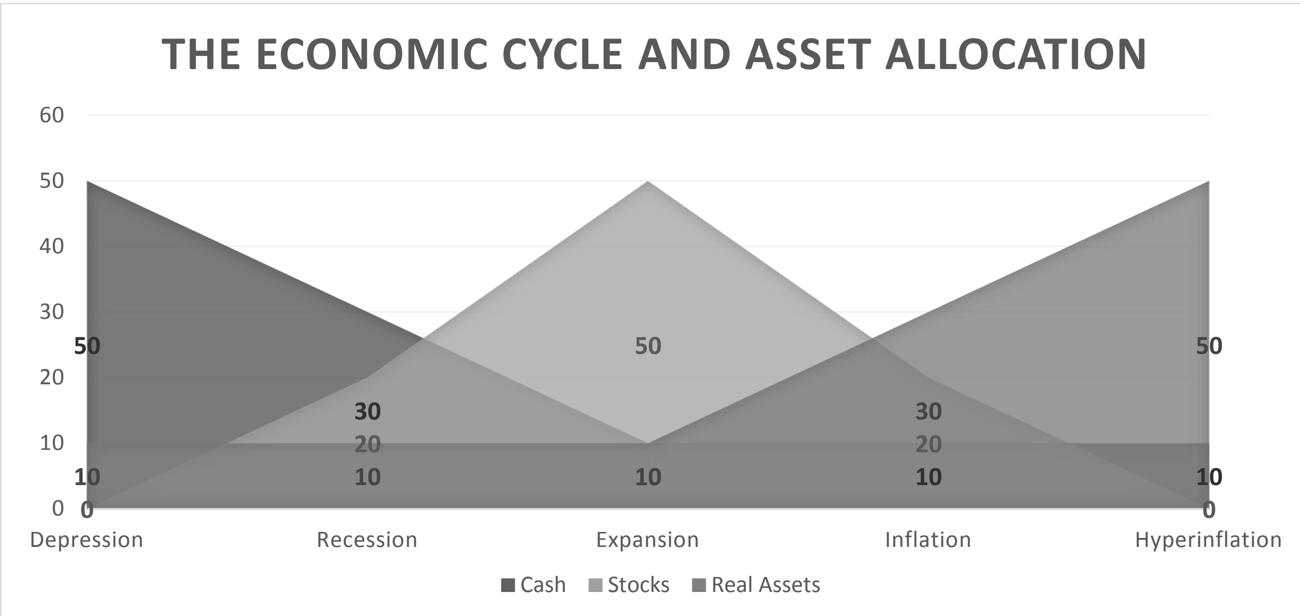
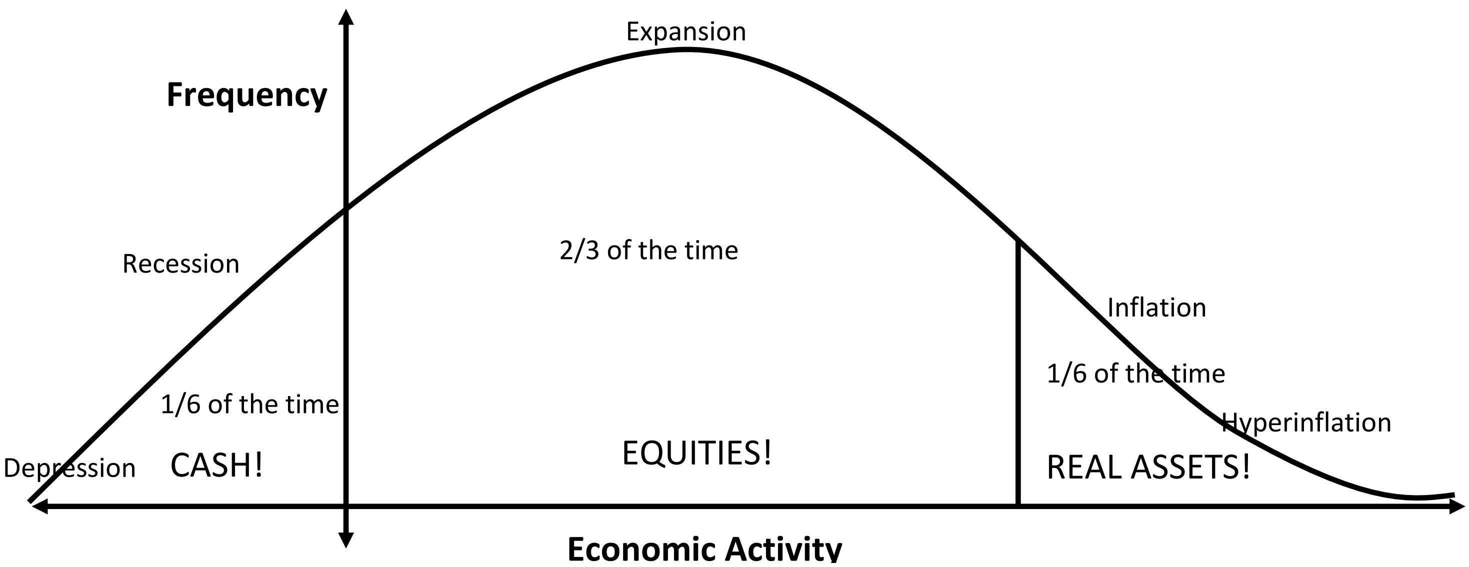
ANOTHER LOOK AT THE ECONOMIC CYCLE





These two graphs depict a frequency distribution of the last 100 years. Approximately 1/6 of the time the economy was in recession or depression, 2/3 in expansion, and 1/6 in inflation. 2014 is the 6th year of expansion after 4 years of recession. When we are in expansion, equities are the asset that will outperform all the others. When we are in inflation, real assets outperform. And when we are in recession or depression, cash is king. It is possible to know where we are, but it is not possible to predict exactly where we are going next. Therefore it is important to maintain a balance instead of loading up entirely in any one asset category.

MY RESOURCES AND TALENTS

Jim is a mechanic and his wife Alice is a realtor/ The current interest rate on 5-year Treasuries is 1.63%/

Robbie cannot fix the door but his friend Chuck is very handy/ Donald is a great welder but financially unskilled/

Karen is in pharmaceutical sales and her husband Bill is a Banker/ Luis drives a cab but can fix any car

Paul holds a PhD in Art History, lives in Manhattan, and reads the New York Times cover-to-cover every day

My special talents, skills, and knowledge:

My resources available through family and friends:

MY VALUES AND BELIEFS

Many of us have strong beliefs about money, savings, and investments. Some of these beliefs guide us spiritually and work in our favor to better our lives and the lives of others, and others form a wall of prejudice around us and block us from acting in our own best interest. When I was a child, my father taught me the importance of saving by telling me I had to have a goal and save toward it. The goal was something that I would spend the money on. He had a positive intent in teaching me, but there was an unexpected side effect - he was teaching me to save only when I was going to spend the money. So for a long time, until I learned better, I never saved any money just for the sake of saving; and I had a lot of spending goals. I wasn't really saving; I was actually spending all my money even before I saved it.

Make a list of sayings and stories about money, savings, and investments that you have heard in your lifetime, and the values and beliefs derived from them. Make a note of how true you think each one is, how helpful it can be as a value, and how strongly you hold on to it. Go back through the list one value at a time and try to imagine that it is completely untrue. Notice how your thinking about money is modified by letting go of each belief.

Tithing is the historic practice of contributing a percentage (usually 10%) of your income to charity. Some believe it to be a necessary spiritual practice, and others tithe because it is healthy both physically and financially to do so. Tithing is like making an investment with an initial financial return of minus 100%. No one said all your investments have to have a financial return. This particular investment has a return that cannot be measured in monetary terms. For best results, contribute to local charities in which you have friends who are active. Your friendships and community will be stronger.

NOTES AND CALCULATIONS:

I am 100% willing to define my values and beliefs __________________________

I am 100% willing to begin tithing at a rate of __________%

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

My Custom-Tailored Big Picture Asset Allocation:

Real Assets From________To________%

Equities From__________To___________%

Cash and Cash Equivalents From_________To_________%

Total: 100 %

My reasons for this balance:

Current Economic Conditions -

____

____

Personal Resources -

____

____

____

____

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MY EMERGENCY FUND

Your emergency fund provides protection from having to liquidate other assets when you have an unusual expense or drop in income. Professional advisors recommend that working people maintain an emergency fund equal to 3-6 months spending, less any guaranteed passive income. So if your living expenses are $5500 per month and you receive $500 per month from a structured payout, your emergency fund should be between $15,000 and $30,000. Your emergency fund should be adjusted higher if your asset holdings are substantial, particularly real estate, or if you have a large family or health issues.

If you are retired, your emergency fund should cover the difference between your living expenses and guaranteed income for a period of years. A very conservative advisor may recommend 5 years of coverage but one to two years may be sufficient. A portion of your emergency fund may be supplied through lines of credit, but this is dangerous since credit may be cancelled. Your emergency fund should be deposited in the safest liquid investments such as insured bank accounts and short-term CDs and Treasuries. You should never risk the loss of principal in your emergency fund.

NOTES AND CALCULATIONS

MY EMERGENCY FUND ___________________________

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MY OTHER CASH EQUIVALENTS

Cash equivalents are investments that are measured in fixed dollar amounts, such as loans, mortgages, deeds of trust, notes, and bonds. Annuities may be held as cash equivalents, as well as the cash surrender value of life insurance policies. The key characteristic of these investments is that they all pay you a pre-determined amount of money at maturity, and/or periodic payments of interest during the term they are held. These cash equivalents are held to provide sources of money in the future to provide for certain predictable or unpredictable expenses, or to accumulate and use for opportune investing in other asset categories when the prices are depressed.

Various Certificates, Notes, Annuities, and Bonds are issued by banks, governments, insurance companies, businesses, and even tax-exempt organizations. They have a variety of features, risk factors, tax consequences, and rates of return. They are frequently referred to as "fixed-income securities." The market for these investments is very complicated and some are acquired in peculiar ways. The large investment firms have a "bond desk" where there is a bond specialist filling all the bond orders for the firm. Most investment advisors can't tell you very much about the bond market.

The important lesson to learn is that cash equivalents are supposed to provide you with cash at a predetermined time. This is much more important than the rate of return they earn. Accordingly, you should first determine the need, then find the safest, most cost-effective way to meet it.

NOTES AND CALCULATIONS

MY OTHER CASH EQUIVALENTS ___________________________

MY RESIDENCE

Your home can be your greatest asset or your greatest liability. Sarah bought a home in Burlingame in 1959 for $74,500. It is now worth $1,581,600 according to Zillow. The upkeep is putting a strain on her $26,000 of Social Security income. If she sells the house, the income taxes will be $389,107.

NOTES AND CALCULATIONS:

I am willing to own a home that is the right size for me ________________

I am willing to improve my home to add value   ______________________

I will replace my home when the gain is $250,000/pp   __________________

MY INVESTMENT REAL ESTATE

Successful investing in real estate requires knowledge of the local market, time and patience in choosing a neighborhood and inspecting properties, time and patience in evaluating current prices and future appreciation, successful deal evaluation and negotiation, skills at managing property and collecting rents, ability to effect repairs and maintenance in a cost-effective manner, funds for down payments, deferred maintenance, and vacancy periods, and the ability to tolerate long periods of illiquidity. While the long-term rate of appreciation in real estate has been just over 3%, it is possible to achieve fantastic triple-digit returns with proper selection, leverage, and timing. It is also possible to lose more than 100% of your investment in a short time period.

If you do not have the skills or the willingness to put in the time, you may be able to partner with friends and relatives who do through a tenants-in-common (TIC) arrangement, or rely on expert advice.

NOTES AND CALCULATIONS:

I have the necessary time and skills __________________

I am willing to do all this myself __________________

I am willing to find appropriate partners _________________________

I am willing to rely on expert advice ____________________________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

MY STOCKS AND MUTUAL FUNDS

Our economy is built around the stock market. The market enables businesses to raise investment capital and become much larger than possible with private equity. The market provides a system to regulate the issuance and subsequent trading of stocks and bonds – to meet the needs of investors and businesses. The historical rate of return on stocks 1928-2013 is 9.55% but it has only been 7.34% in the last 10 years, and there have been long periods when the return was negative (1928-1943 and 1998-2008).

Mutual funds are pooled investments of individual stocks or bonds established and managed with specific objectives in mind (growth, income, etc.). Hedge funds are the "Private Equity" of mutual funds, available only to accredited investors, and not subject to the regulations and licensing applicable to investment companies. Most professional investment advisors will limit their guidance for the small investor to a collection of mutual funds and avoid talking about individual stocks, commodities, real estate, or the other asset categories.

There are many ways to be a successful investor depending on the skills you have and the time you are willing to spend, from putting your money in professional hands and delegating the major responsibility, to completely managing your own portfolio and making all your decisions yourself. If you plan on self-management, be prepared to spend about 10,000 hours learning the ropes: puts and calls, convertible preferred, short against the box, etc., and be prepared to make some mistakes during the learning process.

NOTES AND CALCULATIONS:

I have the necessary time and skills _________________

I am willing to do all this myself _________________

I am willing to rely on expert advice for these tasks:

____

____

____

MY PRIVATE EQUITY

Private equity refers to the direct ownership of a business. It is included in the Equity section of your portfolio along with stocks and mutual funds. Private equity is packaged and sold to "qualified or accredited investors" (millionaires) by investment advisors as limited partnerships, LLCs, or Venture Capital Investments. These types of investments offer participation in the financial ups and downs of a small business without having any input or control over the operation. The basic rules of this type of private equity: You give them your money, they can do anything they want with it, and they never have to pay you back. Sound good? Oh, and you cannot sell the investment except at a big discount. I think this type of investing is best left to the millionaires. Let's move on.

Entrepreneurship is another form of Private Equity. If you own a small business, whether it is a sole proprietorship, partnership, S Corp, or C Corp, you have Private Equity. Everyone should have their own business, period! Even if you have a regular job, it is a great tax strategy to formalize one of your hobbies and promote it to small business status. For a small amount of effort, you can deduct your hobby expenses and (who knows) you may even end up financially successful. Terry Finley bought his first horse in 1991 for $5,000 and in 2011 his thoroughbred syndicate earned revenues of over $6.5 million.

If you are a full-time entrepreneur, you are heavily invested in private equity. Your business is subject to the same risks and rewards as stock market investing, but since you have special knowledge in the area of your business, your money is likely to produce a higher return on investment if invested in your own business rather than in the stock market. On the other hand, investment in your own business is not liquid, and at some point you will stop working and need passive income that could come from investing in the stock market. It may be a mistake to avoid the market entirely.

NOTES AND CALCULATIONS:

I am already an entrepreneur ________________

I am willing to start a small business doing: ________________

I am willing to find appropriate partners ______________________

I am willing to revisit investing in the stock market______________________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

MY PRECIOUS METALS AND COLLECTIBLES

Precious metals and collectibles are in the real asset category along with real estate. Investing in gold and silver is something I recommend highly for a number of reasons:

- There is a low initial investment – the spot price for silver is about $17.17 and gold is $1,229.15.
- There is a ready market – you can walk in to a coin shop and convert coins to cash on the spot or purchase precious metal funds on the stock market.
- While you pay a premium to buy and you sell at a discount, neither should be more than about 5% from the daily spot price. Purchases of $1500 or more are not subject to sales tax. Your purchase and sale are anonymous.
- Gold and silver provide the ultimate hedge against inflation and economic crisis. Gold went to $1912 in 1979 and to $1812 in 2011 after stock market crashes in 1973-4 and 2008-9.
- Gold and silver allow small investors to accumulate real assets even if they don't have enough funds to purchase real estate.

Collectibles are an alternative investment for the right person. But you must be an expert to avoid rip-offs. Buying art, for example, usually means you pay the retail to purchase and receive the wholesale when you sell. To be successful in collectibles, you must have a competitive edge and be in it for the long haul. The best way to buy collectibles is as décor for your office or reception area of your small business. Then they are tax deductible or depreciable. Not very many investments are tax-deductible.

Commodity futures are another form of real asset. The market for commodities exists primarily to provide stability of prices for buyers and sellers of the real assets. Farmers can pre-sell their crops and lock in a selling price before they plant, and food manufacturers can lock in a purchase price before they begin production. Investing in commodities futures is very risky and can attract unsavory behavior (think "Trading Places").

Remember that buying precious metals and collectibles is a long-term proposition. Do not use money that you are going to need in the near future.

NOTES AND CALCULATIONS:

I am willing to start buying precious metals ___________________

I am willing to investigate buying collectibles __________________

I am willing to forever avoid commodity futures _______________

MY LIABILITY PLAN

There are two types of liabilities – those that drain energy and those that attract energy. Liabilities that attract energy are those used to finance appreciating assets, like mortgages on real estate and lines of credit used to expand a business. Our economic system relies on a ready market for low-interest-rate loans secured by real estate – home loans are the cheapest way to borrow. These low-interest loans are a great tool to use to leverage your assets and maximize your return on investment. If you refuse to use this great tool, you will be missing out on some great benefits.

Liabilities that drain energy are auto loans, consumer finance loans, and credit cards. Even if the interest rate is zero percent or you pay off your credit card in full without interest charges, the chronic use of this type of credit creates an energy drag in your economic system. Using December's paycheck to pay off November spending puts you chronically one month behind. The next time you pay a credit card bill, sit down and write a check while paying attention to the effect on your energy levels. As an experiment, overpay one of your bills enough to have a credit balance when you get the next month's statement. Pay attention to your energy levels when you open the mail that day.

NOTES AND CALCULATIONS:

I am willing to overpay my bills to create future energy ____________________

I am willing to eliminate the routine use of credit cards ____________________

I am willing to calculate and assume the proper debt level __________________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

MY SELF-DISCIPLINE PLAN

Scientists have recently discovered that self-discipline operates like a muscle. It starts strong in the morning and gets progressively weaker throughout the day. It also strengthens with exercise, and self-discipline strength developed working toward one goal will transfer to other goals.

1. State your goals positively. Pick one goal, and meet it, and the others will come faster. But be careful with that first goal, because the way you state your goal is half the battle of changing your behavior. Choosing your goal is harder than reaching it, because you have to have a lot of self-knowledge in order to really commit to changing something. But once you are sure the goal is worth your time and energy, get a positive mantra in your head. You can't structure that change if you are telling yourself only what not to do. You also need to tell yourself what behavior you will start doing every day in order to meet your goal. Start with modest goals that are easy to achieve (to ensure success) and then move on to more ambitious goals.

2. State your goals in a measurable way. Many unmet goals are impossible to meet: They are so broad that you can't tell on a day-to-day basis if you're getting there. "Save for retirement" is not a goal. "Make a $5500 IRA contribution by April 15, 2015" is a goal. PS – that's $44.72 per day if you start December 13, 2014.

3. Write the goal down every day, and post it on your wall. One of the reasons this works is that changing our behavior takes intense focus and writing down our goals reminds our brains. Writing the goals down and putting reminders of the goals all over your work and home will help.

4. Commit to three weeks. The hardest part of changing behavior is that your brain is addicted to the bad behavior. If you force yourself to change your behavior for three weeks, your brain will start to develop more dopamine (the brain chemical for pleasure) in response to the behavior to which you are trying to change, according to Monika Fleshner, a neuroimmuno-physiologist at the University of Colorado at Boulder. For example, your brain will start to release dopamine when it thinks about putting money in your IRA instead of, say, buying French Fries at MacDonalds. I like to define a goal, like in sports, as "an object toward which play is directed." The more playful the behavior is, the more dopamine.

5. Structure your day around your goal - every day. You need to know the night before how you are going to meet your goal the next day. You also have to organize your days around avoiding the dopamine triggers of the behavior you're trying to avoid. For example, if you don't want to eat fries, drive three blocks out of your way to avoid your regular McDonald's. According to Nora Volkow, the director of the National Institute on Drug Abuse, for some people, just seeing the colors red and yellow makes their brain release dopamine in anticipation of McDonald's.

6. Make some new friends to go with your new behavior. People who don't change their behavior tend to justify it by saying that it's socially acceptable, according to Cindy Jardine, a professor at the University of Alberta who studies public health. This is why, for instance, if you have friends with poor spending habits, you are likely to be broke. So travel in circles where the behavior you want to change is not accepted. Do you want to get a promotion? Get to know someone who holds a position similar to the one you want.

I am willing to exercise my self-discipline muscles ______________________

MY INCOME PLAN

Joseph Campbell defined money as "Congealed energy." You work (expend energy) and receive money, which is a storehouse of your energy. Later on, you can use some of that money to pay your bills without having to work. Built up energy attracts more energy. If you have a retirement account, it gets easier and easier to add to it as it grows. Money is a magnet for more money. It is a lot easier to make money when you have some.

TABLE 4 – MY INCOME PLAN

Use the same 5- or 10-year intervals as you did in tables 1-3. Complete the first column with the approximate amounts of your current income and then make bold, ambitious projections in the future columns. Bold. Ambitious. Big.

Source	**2014**			
Wages				
Interest and Dividends				
Alimony, child support, welfare, disability				
Private Equity				
Appreciation of asset values				
Pensions and Annuities				
Rental Real Estate				
Social Security				
Other Income				
Total Income				

I am willing to increase my income ________________

I am willing to add additional sources of income ________________

MY TAX ISSUES

Tax Avoidance – the legal process of manipulating your behavior to minimize your taxable income and maximize your tax deductions.

Business plans, spin, mindfulness, recordkeeping, entity selection, directed spending, family partnerships, exclusion of gain on principle residence, life insurance, making appointments, gifting, nontaxable employee fringe benefits, HSAs

Tax Deferral – the legal process of manipulating your behavior to postpone your tax liability (and/or pay less in the future).

Retirement plans, 1031 exchange, capital investments, annuities, accelerated depreciation, charitable trusts

Tax Evasion – the illegal process of intentionally violating the tax laws and regulations.

Correspondence, fines, penalties, liens, levies, audits, Revenue Agents, orange jumpsuits

NOTES AND CALCULATIONS:

I am willing to pay an expert to help me avoid and defer taxes ________________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

TABLE 5 – TABLE OF RISKS

Risk Type	**Description**
Mortality	You may not live long enough to reach your financial goals
Longevity	You may outlive your financial resources
Marital	Marriage or divorce
Health	Unable to fulfill goals due to health issues
Personality	Something is holding you back (you!)
Investment Manager	Competence, honesty, differing agenda
Market (Beta)	Movements of the market as a whole
Business (Alpha)	Technology and progress favor other industries
Volatility (Sharpe)	Day-to-day fluctuations in price
Credit	Company or individual unable to pay its obligations
Interest Rate	Changes in interest rates affect valuation
Dilution	Your share of the ownership is reduced when additional shares are issued
Call	Your investment may be cashed out by the issuer
Carrying Cost	Ownership of this asset comes with operating expenses
Price Level (PL)	Your purchasing power erodes over time
Information	The information you received may be incorrect or misleading
Concentration	Having all your eggs in one basket
Valuation	An asset may be overvalued when you purchase it, undervalued when you sell
Reinvestment	When your security matures, there are no good alternative uses of the money
Liquidity	Inability to cash out an investment quickly for full value
Systematic	World event that influences a large number of assets
Unsystematic	Or "specific" risk – risk that affects a very small number of assets
Exchange Rate	Fluctuating currencies
Sovereign	Political or economic troubles, law changes, revolution
Investment Fee	Your investment returns are being diluted by fees, known or hidden
Leverage	Borrowing to finance investments may force untimely liquidation
Execution	The time between the buy order and its execution
Timing	You waited too long or jumped too soon

NOTES AND CALCULATIONS:

I am willing to examine and define my risk profile ___________________________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

TABLE 6 – THE "MARKET"

Note: This table is not meant to be all-inclusive. Not all investment categories are listed and only the most significant exposures and protections are listed – for information purposes only, not to be relied upon for risk protection. Consult your investment advisor, yudda-yudda.

Investment Type	Exposure	Protection
Money Market	PL, longevity	Liquidity, volatility, market, business
CDs	PL, longevity, reinvestment, credit	Liquidity, volatility, market, business
Bonds, Notes	PL, Interest Rate, reinvestment, credit	Market, volatility
Government Securities	PL, reinvestment, interest rate	Credit, market, business
Individual Stocks	Market, business, concentration, credit	PL, longevity
Mutual Funds (Stock)	Market, execution, investment fee	PL, longevity, concentration
Hedge Funds	Market, leverage, investment fee	?
Mutual Funds (Bond)	Interest Rate, PL, liquidity	Market
Residential Real Estate	Carrying Cost, market, leverage	PL, longevity
Commercial Real Estate	Carrying cost, market, leverage	PL, longevity
Life Insurance	Carrying cost, PL, investment fee	Mortality, longevity, market, business
Annuities	PL, investment fee, liquidity	Mortality, longevity, market, business
Hard Money Loans	Credit, business, reinvestment, liquidity	PL
Small Business	Personality, business, health	PL, call, investment manager
Private equity	All	?
Art and Collectibles	Market, valuation, carrying cost	PL
Derivatives, Puts, Calls	Market, volatility, valuation, timing	Business, concentration
Short Selling	Carrying cost, liquidity, timing	Business, market
Convertible Securities	Interest rate, business	PL, market
TIPs	0% guaranteed rate of return	PL, longevity
International	Sovereign, exchange rate, market	PL, longevity
Foreign	Sovereign, exchange rate, market	PL, longevity
Emerging Markets	Sovereign, exchange rate, market	PL, longevity
Precious Metals	Valuation, carrying cost, liquidity	PL, longevity

Notes and calculations:

I am willing to study and select MY investment types ________________

Types of Stock

Common Stock – The majority of stock is issued in this form. Owners of shares get dividends, capital appreciation, a vote to elect the Board, higher returns than almost any other investment, and the most risk.

Preferred Stock – Owners get dividends with are usually guaranteed but limited, not much capital appreciation, a little less risk, and exposure to interest rate risk.

Convertible Stock - Stock issued in one form (sometimes bonds) that is convertible into some other form of stock, usually at the will of the holder or after some future event. Owners receive the benefits and risks of the original stock issue, made somewhat more valuable by the conversion feature.

Large Cap – Shares in companies whose total market valuation is $5 Billion or more.

Mid Cap – Shares in companies whose total market valuation is $1-$5 Billion.

Small Cap – Shares in companies whose total market valuation is $50 Million - $1 Billion.

Micro Cap – Shares in companies whose total market valuation is less the $50 Million.

Growth – Shares in companies that tend to re-invest their profits into growth rather than dividends.

Income – Shares in companies that tend to pay dividends with their profits.

Value – Shares in companies that trade at lower prices relative to fundamentals (dividends, earnings, sales).

Cyclical – Shares in companies whose prices rise and fall with economic activity (discretionary items).

Counter-Cyclical – Shares in companies that sell items consumers demand even during a downturn.

Defensive – Shares in companies that provide a constant dividend and stable earnings in all markets.

Foreign or International – Shares in companies that are located outside the USA.

Emerging Markets – Shares in companies located in developing countries experiencing rapid growth.

Notes and calculations:

I am willing learn about and select <u>MY</u> stock types _______________

TREATISE ON MUTUAL FUNDS

There are roughly 6,000 stocks traded on US markets but there are about 7,700 mutual funds. This just seems funny to me. I'm not going into great detail about which funds to choose. I refer you to Morningstar to read all about mutual funds. Some funds are actively managed, meaning that there are portfolio managers who select and trade specific stocks, and others that are index funds, meaning that they purchase a representative sampling of the market. The results have varied greatly over the years, and while there a plenty of examples of actively managed funds beating the market, overall less than half of them do. There are a number of reasons for this:

- The fees – The average actively-managed mutual fund fee is 1.44% annually. Another .25% may get tacked on if you buy through a broker. The fees for some of the index funds are as low as .05%.
- Cash on hand – A mutual fund must maintain cash reserves to process incoming investors and redemptions, or to prepare for buying opportunities. Cash is dead money.
- Money manager psychology - The mutual fund manager is competing against the other mutual funds and has to have all the hottest stocks in the portfolio to look good to investors. Unfortunately this means they frequently load up on hot stocks just before their holdings are report; and after the stocks have had their good run. They've over-weighted their portfolio in potentially overvalued stocks.
- Too much diversification – statistics prove that once you own at least 35 stocks randomly selected, the return on your portfolio would match the S&P 500 (a very popular index) within 3%. Most mutual funds have many more stocks than this, and are balanced in industry sectors that mimic the overall market. In order to beat the market enough to make up for the fees and dead money, a mutual fund would have to have LESS diversification and more concentration on stocks or sectors that outperformed the market.
- Survivorship bias – Mutual funds that start out badly are often terminated by the fund manager because the performance returns will not attract new investors. I once invested in a fund that lost 20% in the first 3 months and then folded, sending me a check for 80% of what I had sent them. Mutual fund families can advertise that all of their funds are "4 stars or better" if they have closed all the ones that aren't.

Since the value of a mutual fund is made up of the value of the underlying stock portfolio, most mutual funds are set up to trade at end-of-day closing prices for all buy and sell orders received that day. This means the individual investor cannot set a specific price they are willing to buy or sell, and they cannot buy or sell shares early in the day if there are compelling reasons to do so quickly. They have to wait until the day's trading is over. And if an investor wants to switch from one mutual fund to another, they are subject to more timing risk.

CAVEAT: Certain funds are traded as ETFs (Exchange-traded funds) at all times the market is open. If you want to specify a certain price for your shares, you can do this with an ETF and get an immediate execution of your trade.

Notes and Calculations:

I am willing to study and select mutual funds ____________________

MY RETIREMENT PLANS

401(k), IRA, 403(b), ROTH, ROLLOVER, SEP, SIMPLE, KEOGH – you've heard these names. These are not investment choices, they are tax planning techniques. Work with your tax advisor to determine which ones are appropriate for you. Professionals refer to these accounts as Qualified Plans, because they qualify for tax deferral. Other accounts for investment are described as "Non-Qualified" accounts.

If you have a plan at work, it is usually the better to maximize your contribution to that plan rather than contributing to an IRA (of course, if you have enough money you can do both). You do not need to wait until April or have a lot of money to open an IRA. Ally Bank has no minimum deposit to open an IRA. You can open an IRA invested in a savings account and keep adding to it until you have enough money to move into the stock market or even real estate.

You may invest in the same assets in qualified accounts as you can in a non-qualified accounts, with these exceptions:

- Life Insurance, except for an annuity contracts with "incidental" death benefit
- Derivatives with unlimited risk, like naked calls (really!)
- Antiques and collectibles
- Coins except for several types allowed for mineral content like American Eagles
- Real estate except in an IRA, and then subject to some restrictions

Restrictions on Real Estate in an IRA

- Owner must use a trustee that permits self-directed IRAs
- Owner cannot benefit directly from the property, such as receiving the rent or using the property in any way
- Mortgages must be non-recourse, meaning you are not personally liable – this may require a special lender
- The profits associated with debt-financed property is subject to tax, even in an IRA
- All operating and management expenses must be paid from IRA funds
- Owner participation in management is limited to administrative expenses, cannot perform maintenance
- You can partner with a friend or family member except a parent, child, spouse, daughter-in-law, or son-in-law
- You cannot own real estate in a 401(k) or 403(b) so you will need to take a distribution and roll it into an IRA. If you are still working and your employer allows an in-service distribution, you may take one if you are at least 59 ½ years old.

Because of the restrictions, it is most popular to purchase only raw land in an IRA.

IMPORTANT NOTE: The tax deferral in a retirement account will mathematically result in accumulating SUBSTANTIALLY more after-tax dollars than in a non-qualified account unless you are in a very low tax bracket.

Notes and calculations:

I am 100% willing to maximize my retirement contribution ASAP ____________

LIFE, LIBERTY, AND THE PURSUIT OF LTC

LIFE INSURANCE

It is beyond the scope of this survey to go into great detail about these topics. Instead I will provide some key information that is less commonly-known about them.

Life insurance comes in many shapes and sizes and can provide several key features besides mortality protection.

- Permanent life insurance policies (as opposed to "term" policies which expire after a period of years) build up cash value that is tax-deferred and can be tapped later in life as policy loans, to create a tax-free source of retirement income. Any loans are subsequently paid from the mortality benefit, which is tax-free, so no tax is ever paid.
- Life insurance can provide a way to transfer wealth from one generation to the next without tax consequences.

ANNUITIES

- Annuities can be used to turn cash into life-time income streams and make up for the gap between retirement expenses and retirement income. (LIBERTY!)
- Annuities can be used to accumulate tax-deferred income and have distinct advantages over IRAs.
- Although the original contributions (premiums) are not tax-deductible, the amount you can contribute is not limited like an IRA.
- Annuities generally pay a higher interest rate than any other guaranteed fixed income investment.
- Variable annuities can combine stock market returns with fixed income guarantees.

LONG TERM CARE INSURANCE (LTC)

- LTC covers home care, assisted living, adult daycare, respite care, hospice care, nursing home and Alzheimer's facilities.
- LTC covers the expenses that are not covered by Medicare unless you have spent away all your money.
- Nursing home expenses run over $8,000 per month.
- The average nursing home stay is 2 ½ years.
- You have roughly a 50-50 chance of have a LTC claim.
- The younger you are when you purchase LTC insurance, the cheaper it will be.

Notes and calculations:

I am 100% willing to purchase appropriate life insurance _______________

I am 100% willing to investigate an annuity _________________

I am 100% willing to investigate long term care insurance ___________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

TRUSTS, WILLS, LLCS, FAMILY PARTNERSHIPS

If you own a business or real estate, you should investigate a living trust to avoid probate and facilitate speedy transfer of assets. To complete your estate plan, you should also have a will, advanced healthcare directive, and durable power of attorney. Figure to spend $1500 or so. 'Nuf said.

Other types of trusts, LLCs, and family partnerships are used to protect assets from creditors, distribute income into lower tax brackets, facilitate transfer of ownership, and sometimes to defer taxes.

I am in the process of setting up a Charitable Remainder Unitrust with a client who received an $875,000 buy-out of stock in his start-up company. The Trust will create lifetime income and defer all the capital gains taxes. It also leaves the remainder sum to charity.

Consult your tax advisor to discuss these options if you are interested.

Notes and calculations:

I am 100% willing to set up my estate plan _______________

INVESTMENT PHILOSPHIES AND STRATEGIES

Asset Allocation – This is the process of establishing appropriate asset categories, assigning weights to each category, and periodically re-balancing the portfolio as the values or weights change over time

Strategic Asset Allocation – Setting target allocations and then periodically rebalancing the portfolio back to those targets as investment returns skew the percentages – Akin to the "Buy and Hold" strategy for stocks.

Tactical Asset Allocation – Allowing for a range of percentages in each asset class to take advantage of market conditions within these parameters – Akin to "Market Timing" for stocks.

Concentration/Diversification – A concentration strategy seeks to increase returns by narrowing the number of investments in the hope of higher returns; diversification seeks to reduce risk by increasing the number of investments.

Efficient Market Hypothesis – The theory that all it is impossible to beat the market because market efficiency causes existing share prices to always incorporate all relevant information. Buy-and-hold strategy.

Passive vs Active Management – Passive management uses mutual funds and ETFs to mirror a market index. Active management tries to beat the market with various investing strategies and tactics

Indexing – The adjustment of weights of assets in an investment portfolio so that its performance matches that of an index, such as the S&P 500

Value/Fundamentals Investing – An investment paradigm taught at the Columbia Business School since 1928 involves buying securities that appear underpriced by some form of fundamental analysis such as price/earnings ratio, discount to book value, high dividend yields, etc.

Dividend Investing – Purchasing stocks with historically increasing dividends in the expectation that the dividend will continue to increase and raise the stock value. Also, you get the income.

Growth Investing – A strategy which seeks out stocks with good growth potential, where earnings are expected to grow at an above-average rate compared to the industry or the overall market.

Technical Investing – Using charts and other tools to identify price patterns and predict future movements

Contrarian Investing – Attempting to profit by investing in a manner that differs from conventional wisdom

Market Timing – Attempting to predict the future direction of the market, typically through the use of technical indicators or economic data. The opposite is "Buy-and-hold" which is born of the Efficient Market Hypothesis.

Socially-Responsible Investing – Also known as sustainable, "green" or ethical investing, is any investment strategy which seeks to consider both financial return and social good (environmental stewardship, human rights, consumer protection, ethical behavior)

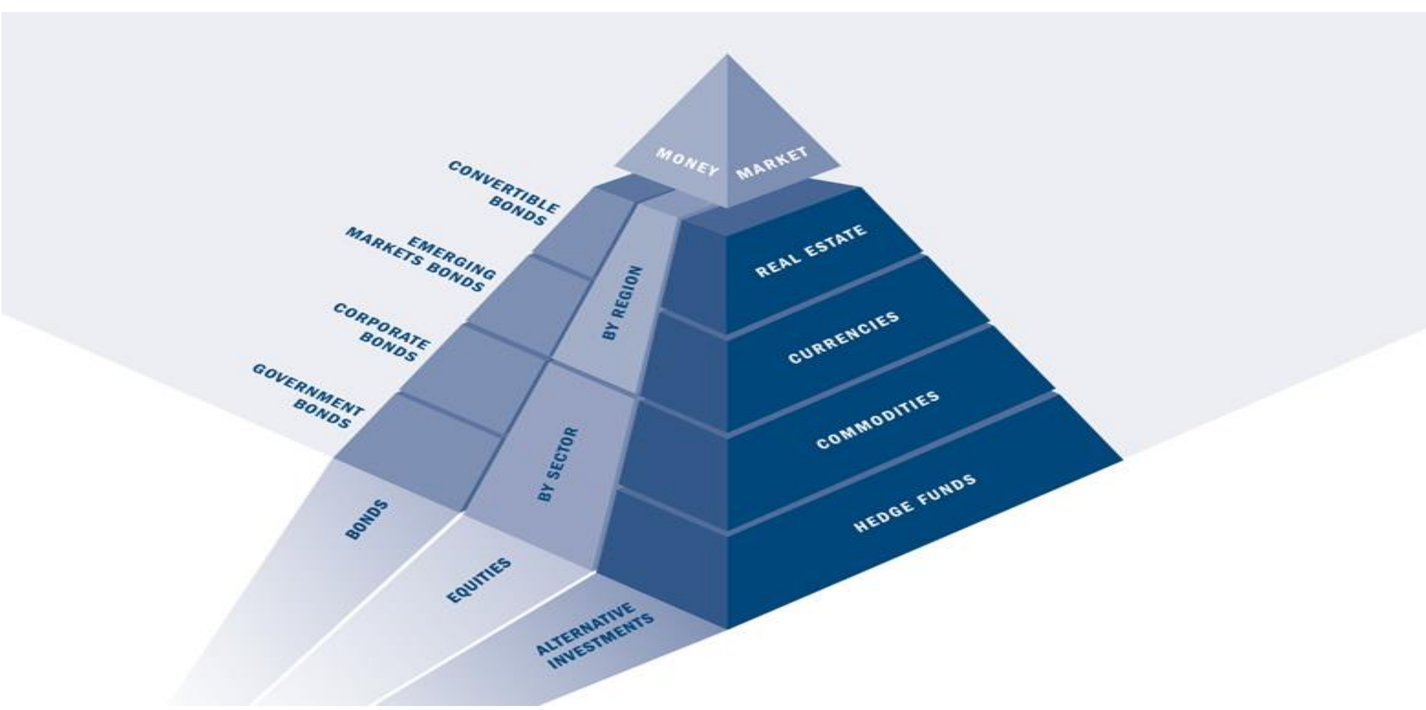
TRADING TECHNIQUES

Dollar-Cost Averaging – The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of share price. Since more shares are purchased when prices are low, and fewer shares are purchased when prices are high, the average price paid per share may be lower. Also this technique is useful for entering a new market to avoid investing all your money at a "market top."

Stop Loss – The most important reason to have an investment advisor. This is an order to sell a security when it drops a certain amount. It takes the emotion out of selling decisions and enables an individual to overcome their natural human tendency to hold on to securities that are falling in price in the hopes that they will reverse course. Most individual investors will find it impossible to "pull the plug" without professional help and they will watch helplessly as their stock becomes worth less and less.

Short Sale – In investing, this is very different from real estate. Short selling a stock is the selling of a stock you don't own. How is this possible? Your broker *lends* you the shares. Until you close the transaction by purchasing back the shares (called *covering*), your broker charges you fees for the short sale and you are responsible for reimbursing any dividends paid on the stock. The idea here is that you think the share price is going down so you can cover at a lower price and keep the spread. Owning the shares is called "going long." Selling shares you don't own is called "going short." Some investors invest in only one stock, alternately going long and short depending on which direction they think the stock is moving.

Derivatives – These are contracts that *derive* their value from the performance of an underlying entity, such as a stock, index, or interest rate. Street names are forwards, futures, options, swaps, collateralized debt obligations, credit default swaps, and mortgage backed securities. Sophisticated traders use options to hedge their positions and increase their investment returns.



MY INVESTMENT PROFILE

These factors enter into defining my investment profile (circle level of importance):

Objectives

Preservation of Capital	1	2	3	4	5
Current Income	1	2	3	4	5
Growth and Income	1	2	3	4	5
Capital Appreciation	1	2	3	4	5
Aggressive Growth	1	2	3	4	5

Risk Tolerance by Type of Risk (use Risk Table 5 on page 26)
Investment Areas Selected (use Market Table 6 on page 27)
Time Horizon ____
Level of Participation ____
Attitudes and Beliefs ____
Special Talents and Resources ____
Preferred Philosophies ____
Preferred Strategies ____
Other Considerations ____

Notes and calculations:

I am 100% willing to create my personal investment profile ______________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

THE PERFECT INVESTMENTS FOR ME

Notes and Calculations:

I am 100% willing to define the perfect investments for me ______________

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

SELECTING MY ADVISORS

I use these instructions for selecting advisors in most professions:

1. Ask for referrals. Ask a lot of people. Don't just take the first name that comes along. Consider carefully the credibility of the person making the recommendation. Seek out the opinion of people whom you respect and trust. This might mean that you go beyond your circle of friends if they are not sophisticated about money. Do you have an uncle or business associate who seems to be good with money? How about your banker, your doctor, or your employer? Ask questions about their advisors and listen closely to the answers. A referral should be positive and backed up with a good reason. "I go to him because he handles my father's investments" is not really a referral. Keep getting referrals until someone's name starts popping up over and over. Then you've found someone local who is really doing a good job.

2. Interview your prospect. Have some questions ready to ask, and make them open-ended to draw out the most information. Tell me about your practice. Tell me which services you provide and which you don't. Tell me about your clients. Tell me about your staff. Tell me about your track record. Tell me about your educational background and training. Tell me about your continuing education. Tell me what sets you apart from other advisors. Tell me about your fees and how they are calculated. If any of the answers don't feel satisfying, ask "Can you tell me more about that?" Look for honest and forthcoming answers to your questions. If you get the sense that anything is being held back, you might be right. Get a feel for how well you will be able to work with this person. You, the customer, are entitled to patience, courtesy, and respect.

3. Check references. Ask for references and call them. In particular, ask for names of people who have the education and background to actually evaluate the advisor, such as a retired banker or accountant, not a nurse or social worker, so you get an objective opinion about the performance, not the personality. The advisor should call the clients to ask their permission before allowing you to contact them. If he does not, he may have violated their confidentiality and he may violate yours. You should expect all the references to have a glowing opinion, since the advisor picked them himself. Ask the references if the advisor ever disappointed them, is he available and responsive, has he ever lied or been evasive, has he implemented the strategies you agreed upon, and how is he do deal with when things go poorly. Ask if they are satisfied with the performance of their assets.

4. Get a written proposal, including a quote for all the fees. Ask the advisor if he will be purchasing no-load funds or funds that have 12b-1 fees and other fees. The latest trends in mutual fund fees has most firms and advisors offering services with no sales commissions, and, in some instances, no 12b-1 fees or other loads. Instead, they charge an asset-based fee ranging from 0.5%-2.0% of assets, frequently depending on the size of the portfolio to be managed.

I am 100% willing to carefully select my advisors ___________________

LIFELONG EDUCATION

But wait, you're not done. If you're going to buy stocks, here's an action plan to follow.

1. Prospect - start a list of companies to research. Get ideas from magazine articles, cable television, and daily life. Subscribe to Money Magazine and add Business Week and Forbes if you are really serious. Look for companies that are recommended by professional analysts or ones that having intriguing products. But don't take the talking heads on TV too seriously. I refer to many of the shows on CNBC as "stocknography." They are after ratings, not your success as an investor. Perhaps there is a retailer that you especially like or a manufacturer. Or maybe you think a certain industry is poised for rapid growth. Keep your eyes and ears open and keep adding to your list, even if you have no money to invest. Make prospecting a life-long activity. You never know when you are going to run across a fantastic opportunity.

2. Screen - eliminate companies that don't fit your investment goals. Avoid certain industries if you don't understand them well or you think they are "on the way out." Screen out companies that have a poor record of social responsibility, a recent record of financial or political troubles, or too much debt. You may have a different set of screens. Look for companies that your would like to own and run yourself. That is exactly what you are doing when you invest in the company's stock.

3. Evaluate - determine what the shares of stock are really worth. There are a number of methods for doing this. To gather information, use the free investment tools available on the internet at Zacks or Money.cnn and other services. Develop your own valuation methods, whether based on fundamentals, dividends, etc.

4. Compare - look at all the companies in the same industry. Never invest in a company unless you look at all its competitors. Find a software program or website that lets you compare a stock with all the companies in the same industry on all the features you care about. This is an invaluable step. Sometimes you will find an unknown but promising competitor that looks better than the one you're evaluating.

5. Commit - make an action plan regarding the stock. This does not mean buy the stock. It means that you set a target buying and selling price for your selected stocks. You may set the buy price at 75% of the value you've calculated and set the selling price at 110% of the value. This way you are buying shares at a steep discount and stand to make a handsome profit. Be sure to set a stop loss in case you were wrong.

6. Monitor - track your selections. Update your valuations continuously and compare them with market prices. Remember that both the market price and the valuation can change rapidly, especially when there is big news breaking. When stocks you are tracking reach a target buying price, buy them. When stocks you own reach a target selling price, sell them. Nothing could be simpler.

I am not guaranteeing that you will make money by following these guidelines - you may not even find a suitable investment for months or years. Barry Bonds didn't hit all those home runs by swinging at every pitch - but you will certainly maximize your chance of success. Warren Buffet started with a portfolio of about $105,000 and ended up with billions. I hope you have similar results.

ROB KIRBY CPA, CFP, EA, MBA - 1220 N DUTTON #103 - SANTA ROSA CA 95401 - 707-888-3676 - ROB@TAXOASIS.COM

BIBLIOGRAPHY AND READING LIST

A bibliography and reading list will be sent to all participants when it is compiled.