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THE "YOU MAY NOT KNOW REPORT"

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The Coming Change in the Way Wealth is Stored, Preserved and Invested

The manner in which wealth is stored, preserved and grown is beginning to change and its changing radically.

As this piece will reveal, even banks are beginning to approach wealth storage or money storage differently. If you're managing a nest egg, it's in your best interest to be aware of these changes.

Many who are not paying attention to financial and economic developments remain unaware of these changes. However, anyone who chooses to be a serious observer of these developments can see that fiat currencies are weakening, and alternate wealth management strategies are quietly becoming more mainstream.

Driving these changes is wildly evolving monetary policies.

Central bankers around the world set money policies and they've painted themselves into the proverbial corner. They have few options left.

While the country and the world have been focused on the impeachment trial and coronavirus, wealth preservation and wealth storage methods are quickly evolving before our very eyes.

First, some background.

After the financial crisis, central banks resorted to printing money after reducing interest rates to zero failed to produce the desired result of another boom cycle.

In the fractional reserve banking system under which we operate, as money moves from one bank to another, money is created.

Here's an example.

You deposit $100,000 in your bank. Under the current reserving rules, your banker must reserve $10,000 and can loan out the other $90,000. In other words, money is created as money is loaned.

If money is moving fast and the velocity of money is high, more money is created. The $90,000 that your banker loaned to a home buyer was paid to the home seller who deposited the $90,000 in her bank. That banker reserved $9,000 and loaned out $81,000.

By reducing interest rates, borrowing becomes more attractive, borrowing activity increases and more money is loaned into existence. After the financial crisis, due to the level of private sector debt that existed, borrowing did not pick up despite interest rates of nearly 0%.

So, the Federal Reserve embarked on a path of "quantitative easing" or money printing. Since money was not being loaned into existence because private sector debt levels were too high and consumers weren't borrowing money, the Federal Reserve decided to just print it.

Whenever you hear or read that the Fed is expanding its balance sheet, it simply means the Fed is printing money.

Initially, money printing creates the illusion of prosperity. In many areas of the economy today, this prosperity illusion exists. But, in other

parts of the world, new and even crazier monetary experiments are being executed because the prosperity illusion has worn off.

In much of the world, bonds now have negative yields. A negative yielding bond gives you back less than you invested at maturity.

This Negative Interest Rate Policy, or NIRP as it's known by, is changing the dynamics of wealth storage, preservation and growth. This from "Zero Hedge"[1] (emphasis added):

> *In the era of NIRP, "cashless societies" like Sweden are at a clear disadvantage. When banks are charging wealthy customers additional fees for storing their cash on deposit, the option to transition a chunk of one's fortune to cash suddenly makes sense. And as <u>Bloomberg</u> reported[2] Friday, this phenomenon hasn't been lost on German banks.*
>
> *To help them keep as little money in reserve accounts as possible, **<u>banks in Germany are reportedly stuffing vaults with euro banknotes to keep them handy for cus-</u>***

tomers (and avoid the additional NIRP tax on deposits). Some banks have hoarded so much cash that they're running out of room and are searching for more storage. This behavior has been going on for years, practically since Draghi introduced negative rates almost six years ago.

> *But the trend has gotten so out of hand* ***German banks are running out of space to stash the notes.***
>
> *The physical cash holdings of German banks rose to a record 43.4 billion euros ($48 billion) in December, according to Bundesbank data published on Friday.* ***That's almost triple the amount at the end of May 2014****, the month before the European Central Bank started charging for deposits and raising the pressure on Germany's already beleaguered banks.*
>
> *By the end of last year, German banks were holding a record amount of physical cash.*

Andreas Schultz, who runs a German savings bank had this to say, *"These days it's better to keep funds in cash rather than park them at the ECB. That's despite the risk, insurance costs and logistical hassle involved. It's a ludicrous demonstration of the consequences of the ECB's interest-rate policy."*

Frank Schaeffler, a member of the German Parliament commented, *"This is just the beginning. If it continues, we'll see a boom for vault makers and security companies."*

It would not be surprising to see negative interest rates become a worldwide phenomenon. If that happens, consumers and banks alike will look for alternative ways to store and grow wealth, likely outside the banking system. But as noted above, even banks are changing their behavior.

Former Federal reserve Board Chair Alan Greenspan stated fairly recently that it was his view that US interest rates could go negative. In a CNBC interview[3], Mr. Greenspan said, "You're seeing it pretty much throughout the world. It's only a matter of time before it's more in the United States.

Demand for secure storage and alternate assets is exploding in Europe.

Markus Weiss, managing director at Degussa Goldhandel which sells gold and offers clients space to store their valuables said, "We're seeing increased demand for our safe deposit boxes, frequently for storing cash. That high demand has lasted for months now and we're continuously expanding our capacities."

Looking ahead to the next monetary experiment, it's quite possible that we will see helicopter money. While no one knows for sure, the advent of helicopter money could likely be the last money experiment before the reset.

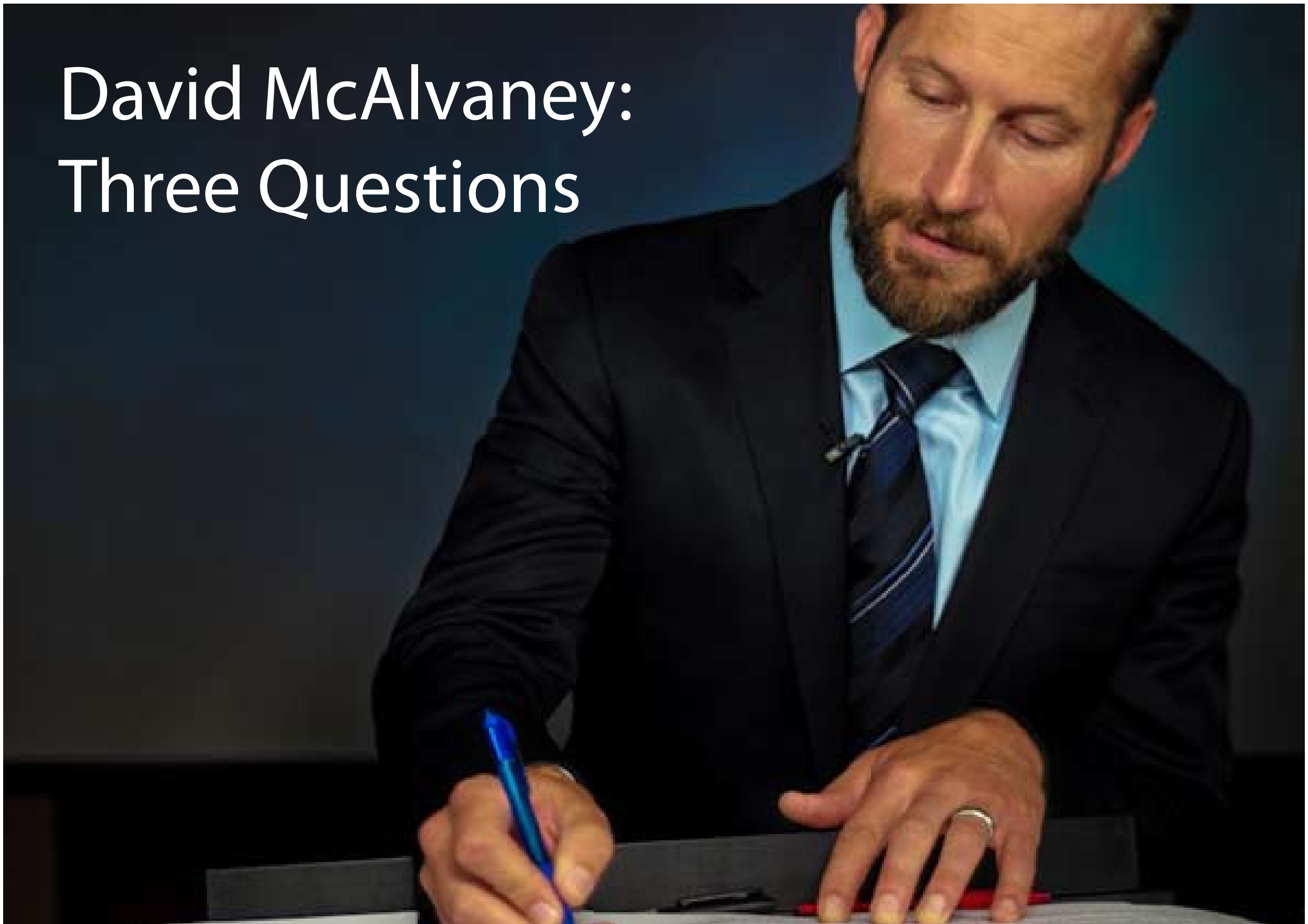
Helicopter money was once proposed by former Federal Reserve Chair, Ben Bernanke, earning him the moniker "Helicopter Ben".

Helicopter money is money that is printed but rather than using the newly printed money to buy assets from banks, it is distributed directly to the public. It could come in the form of a direct bank account deposit or a tax credit.

Treasury Secretary, Steve Mnuchin recently stated that the administration is working on tax cuts for the middle class. A CNN article[4] quoted Mr. Mnuchin, *"They'll be tax cuts for the middle class, and we'll also be looking at other incentives to stimulate economic growth."*

Helicopter money may indeed be on the way.

That will mean the way wealth is stored will continue to evolve. When doing your planning for 2020, think tangible for some of your assets.



David McAlvaney: Three Questions

Recently, on Retirement Lifestyle Advocates Radio, Host, Dennis Tubbergen interviewed Mr. David McAlvaney. David is CEO of the McAlvany Financial Companies – International Collectors Associates and McAlvany Wealth Management. He is a featured speaker on national television programs including CNBC, Fox News, Fox Business News, and Bloomberg; many radio programs, such as this one and is also an often a keynote speaker at financial seminars around the world.

Dennis: *"So David, let's just jump in a minute if we could and just get your take on the current state of the economy and then we'll jump into fed policy. But give us your assessment of where we are."*

David: *"Well, for the last couple of years, the US economy has been the standout on the global scene as we've seen growth trends declining in China to now 30-year lows in terms of their growth rate. We've seen that impact a lot of the emerging markets very negatively. Of course, the trade issues that we've had with China have sort of exacerbated that trend. And so if you're doing sort of a relative comparison, we've been the best looking less than 2% growth, not all that stellar, particularly if you look at the trillions of dollars that had been pumped into the system by the central bank, not only the fed, but other central banks around the world probably should have expected and should have seen more economic activity and growth over the last decade and certainly over the last year or so. But I'd have to say the economy is not in terrible shape.*

Now the financial markets I would describe as *incredibly frail. So, we're kind of talking about two different things. The economy can rollover at any point, but today it's not all that bad. The financial markets we do believe are on a very precarious perch indeed."*

Dennis*: "Well, let's break that down a minute and let's just talk about the financial markets. Stocks at this point, I think we could all agree are extremely overvalued relative to historical average valuations. How much higher do you think they can go?"*

David*: "Well it's a little bit like asking how much crazy can crazy get. And if you've ever known someone who is a little bit off their rocker, behavior can sometimes surprise you. So that is what we're dealing with in the stock market is its behavior and its individuals who are very enthusiastic, and momentum has been on the side of the bulls here for some time. But I think one of the things we see is sort of peak complacency. When you look at sort of measures of risk within the markets on a daily, weekly basis we're looking at, credit default swaps spreads and various things that would indicate if there's real concern about, a group like Goldman Sachs or Deutsche Bank or JP Morgan. We want to see how people are betting on their long-term stability. And we're right now, Dennis, at the same levels we were in 2007. People are fat and happy.*

People are absolutely, and this is not just a consequence of being sort of post-Christmas and everybody's got sort of a food hangover coma. Everyone is enthusiastic about the stock markets and everyone thinks that 2020 is going to be just as good as 2019 if not better. At least that's how the internals of the market are set up. So, we would look at that as peak complacency. If you recall 2007, was again as good as it got just prior to the major collapse there, 2008 and 2009. So looking at the sentiment indicators, boy, I think there's a lot that we can look at. Just here even in the last few days we've had the fear and greed index hit 97% greed highest ever, and it's been sitting above 90% for a number of days. And if you're looking at the bull bear differentials, we're also at a level that would imply again sort of peak complacency."

Dennis*: "David, when you talk about the market and I've had different guests on the program that have different perspectives, but I think they all agree that to some extent and maybe varying all the way up to a very large extent, fed policy has really been driving the market. In other words, when you create money, it's got to go somewhere, and stocks seem to have been the beneficiary. To what extent would you agree or disagree with that?"*

David*: "I would completely agree with it. It's one of the reasons why my reaction or response to your first question dealt with sentiment more than it did fundamentals because I agree with you on fundamentals as well. We are overpriced and this is a very expensive market. Unfortunately, fundamental stopped mattering a number of years ago as central bank stepped in and basically said, (Mario) Draghi in 2011 said we'll do whatever it takes to hold up the markets and we've seen similar actions echoed by the bank of Japan, the bank of England and the federal reserve and their footprint in the marketplace has become the defining factor in asset prices being as inflated as they are.*

So yes, fundamentals are very out of whack. And to your original point they can get even more out of whack because the central banks of the world have committed basically unlimited sums to the project of keeping it normal and kicking the can down the road."

More on Helicopter Money

While Ben Bernanke is widely credited with inventing the term 'helicopter money', the term was originally used, at least in a round about way, by economist Milton Friedman.

Mr. Friedman, in a paper he published in 1969, used the parable of a helicopter flying over a community and dropping $1,000 in money for citizens to gather and spend. His argument was that economic activity would increase as people spent the newly acquired money and inflation would rise.

Economist Richard Mawarire, from Zimbabwe, recently wrote an op-ed piece about the outcome of Zimbabwe's recent experiment with helicopter money. Here is a bit from his article[5] (emphasis added):

> *Smarting out of a period of double digit growth between 2009 and 2013 which was also characterised by relative political stability, the country hit a bad patch at the end of 2013 into 2014. From double digit GDP growth rate, the economy grew by a meagre 2% at the close of 2013 and this was to deteriorate to 0.8% at the close of the year 2016.*
>
> *On the inflation front the economy started experiencing decelerating inflation, with the annual inflation rate below 0% from 2014 right through to the year 2016. The period was also characterised by poor revenue performance on the Zimbabwe Stock Exchange's bluechip counters.*
>
> *Faced with massive deflation any good student of Milton Friedman would have resorted to the helicopter economics handbook when faced with an economy that was now characterised by negative inflation and declining aggregate demand. This is exactly what the Reserve Bank of Zimbabwe prescribed through a massive project of issuing government paper to finance government programmes in an effort to boost aggregate demand.*
>
> ***<u>In an effort to stir the economy out of a depression, the Reserve Bank of Zimbabwe increased broad money supply (M3) by 30% from $4.77b to $6.20b between 2015 and 2016.</u>***
>
> ***True to the Helicopter economics rule book the economy responded by registering a massive jump in the GDP growth rate in the subsequent financial year from 0.8%***

in 2016 to 4.7% at the end of 2017. However, despite the temporary success story, the situation created a new problem for the economy- exchange rate volatility and inflation headwinds!

Milton Friedman in his helicopter parable emphasises the fact that the helicopter money event "….is a unique event which will never be repeated." In other words, Central Banks should only resort to this method as a "catalyst" to taking the economy out of a situation of negative inflation and declining aggregate demand. However as depicted above, the ***authorities kept on increasing the rate of money supply growth against a background of a flat GDP growth rate****. The disproportionate relationship between money supply and the GDP growth rate resulted in too much money chasing too few commodities and hence the inflationary pressures and exchange rate volatility witnessed at the end of 2016 into 2017 to date.*

The exponential growth in money supply as depicted above continues to lead the economy into a continued period of inflation and exchange rate volatility. This is primarily due to the fact that the real sector of the economy is not growing at the same pace at which we are injecting new money into the economy and hence the proverbial "too much money chasing too few commodities" with the attendant effects on the exchange rate and inflation.

Zimbabwe is repeating the same money printing mistakes of about 10 years ago. In 2009, after massive amounts of money printing, the country abandoned its currency in favor of the US Dollar and Euro.

Money printing always has consequences. It's when these consequences emerge that is difficult to determine.

Should You Have a Self-Directed IRA?

It's most common for IRA owners and investor to buy stocks, bonds and mutual funds in their IRA. As soon as you tell most financial professionals that you want to buy physical gold or silver or perhaps real estate in your IRA, you'll probably hear something like "You can't do that."

The reality is that it can be done but many financial professionals are not able to help you accomplish it. IRS Publication 590 and Internal Revenue Code 4975 clearly allow IRA assets to be invested in 'alternative investments' such as gold, silver, real estate, private equity and other assets. As long as IRS rules are followed, your IRA can own income-generating real estate, such as commercial and residential rental properties.

The IRS rules to which you must comply fall generally into three categories:

One, you must use an IRA approved custodial to set up and manage your account.

Two, you cannot transact any investments with 'disqualified persons'. A disqualified person is defined as you, certain family members as well as key persons in a company owned business.

Family members who are disqualified are lineal ascendants or descendants and their spouses.

Three, you must avoid engaging in 'prohibited transactions' as defined in Publication 590. A prohibited transaction is a transfer of plan assets or income, or use of them for the benefit of a disqualified person or yourself.

Bottom line is this; you and the money in your retirement account must be completely separate entities. You can direct and manage the process at arm's length only. You can't use qualified retirement account assets to purchase or hold investments that benefit you personally.

In the case of real estate in a traditional IRA or Roth IRA, there is an investing model that can make sense for many investors.

In the December issue of this report, we provided an overview of this strategy. We will provide another variation on this strategy here.

Sarah owns an IRA with $500,000 in it. She is looking to generate annual income from her portfolio of $20,000 which she will use for living expenses in addition to the income she receives from other sources.

Sarah identifies a single-family home her IRA can purchase for $200,000. She establishes a self-directed IRA account with an IRS approved custodian. She then transfers $200,000 in assets to her newly established account with the IRA custodian. The IRA custodian purchases the property for Sarah's IRA.

Sarah elects to use a lease-option strategy to generate cash flow from the property. The strategy is to put ownership minded individuals in the home.

An individual is identified that has the ability to pay a non-refundable $6,000 down payment for a lease option to buy the property from Sarah's IRA in two years for a purchase price of $220,000.

The $6,000 down payment will be applied to the purchase price of the home should the tenant buyer decide to purchase the property. However, should the tenant elect to not purchase the property, the $6,000 deposit is forfeited.

Over the two-year lease term, the tenant buyer pays rent of $1,300 per month with 10% of the rent paid credited to the purchase price of the home.

At the end of two years, the tenant buyer will purchase the home from Sarah's IRA.

Here's the math in this hypothetical example:

Purchase Price	($200,000)
Non-Refundable Option Deposit	$ 6,000
Rents Collected	$ 31,200
Taxes and Insurance	($ 6,000)
Cash Out at Sale	$210,880
Sarah's IRA Investment	$200,000
Cash Out	$210,880
Net Cash Flows	$ 31,200
2 Year Possible Return	26.04%

Sarah needs to manage the property at arm's length to maintain compliance with IRS rules. While she doesn't need a property management company to manage the property since some IRA custodians can collect lease-option payments and provide income to the IRA owner.

Sarah can likely meet her income needs using this strategy and can now invest the remaining $300,000 of retirement account assets in a way that may provide liquidity and growth potential.

The self-directed IRA strategy is one that many IRA owners should consider to protect against the ongoing money creation policies being pursued worldwide.

Some Inspiration for You This Month

Did you set New Year's Resolutions? How are you doing with them?

This month, regardless as to what your New Year's Resolutions were or if you even had them, we share with you five stories of inspiration.

THE IRONMAN: LEW HOLLANDER

The Ironman is one of the toughest triathlons in which you can participate.

Oregonian, Lew Hollander, at the age of 85 is the oldest triathlon athlete in the world. At the age of 82, Mr. Hollnder broker the Guinness Book of World Records mark for oldest triathlon participant. Presently, Lew is training for his 59th Ironman race.

This has not been a lifelong pursuit for Mr. Hollander. He first began participating in Ironman competitions when he retired at age 55 and was looking for new challenges.

"Use it or lose it," Hollander says when asked for the secret of his longevity. "Don't say, 'Ow, my knee hurts'. If you get out and use it, your body will tend to make it better again. The only things you can control are the quality of your life and the length of your life. So go anaerobic every day. That's when you run out of air. It's not rocket science, you just run until you can't breathe anymore."

BADASS GRANDMA: EDITH WILMA CONNOR

Ms. Connor was feeling bored in her job in data processing and decided to begin a regimen of weightlifting to challenge herself. She was in her 60's at the time.

By the age of 65, she entered her first bodybuilding competition in Las Vegas and won.

Today, at the age of 80, Edith owns the Guinness World Record for oldest living female bodybuilder. She is a great-grandmother.

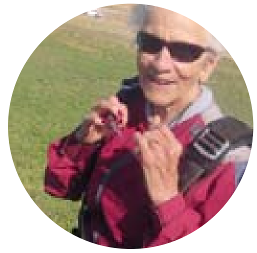
THE CYCLIST: JOHN SANMARTINI

When he retired, Mr. Sanmartini took up competitive cycling. He retired at the relatively young age of 55.

John has always loved cycling but never competed until after he retired. He has participated in both the Huntsman World Senior Games and the National Senior Games for the last 25 years. Recently, he was inducted into to the Huntsman World Senior Games Hall of Fame.

He trains at least five days each week on three different bicycles.

"I don't do it just for bicycle riding; I like to race, be a little competitive," Sanmartini said. "Bicycling is good for your health. You have to be in some kind of shape; you got to have enough sleep, eat, and drink to be able to race. It's competitive. It takes work to do it. At my age if I stay off too long it is hard to come back racing."



THE ADVENTURER: GENEVA ESKRIDGE

Ms. Eskrivge, a 92-year-old grandmother, just took up skydiving. A cancer diagnosis was her motivation to finally realize her dream of jumping out of airplanes.

"When I was told I had cancer, I decided I better start living," Geneva told a local news station in an interview.

THE QUICK STUDY: CHARLIE EDWARDS

Mr. Edwards never thought about competition of any kind until he met a man in an elevator and had a conversation. As a result of that talk, Charlie took up archery at the age of 92. Today, at the age of 96, he just won his first gold medal at the National Senior Games.

Mr. Edwards told "The Washington Post" that is took him about a year to master the sport. He participated in his first competition in 2013 at the National Senior Games. He came in last place, but it only motivated him.

He continues to practice religiously and just he took home the gold medal.

Do You Know How You Will Be Affected by the SECURE Act?

The SECURE Act is now law. Your IRA or 401(k) will be affected as the rules have changed. While some parts of the SECURE Act can benefit some taxpayers, there are other parts of the new law that will require taxes be paid more quickly. And, there are opportunities for many IRA and 401(k) investors to actually divorce themselves from the IRS in their IRA and 401(k). Don't miss out on your opportunity to save money on taxes.

The details of this just-passed, new law will be revealed at a free, informational meeting to be held at Noto's Restaurant on 28th Street in Grand Rapids on February 27. The meeting will begin at 6:00 PM and conclude at 7:30 PM with a complimentary dinner. Tickets to the event are free but required. (Please limit your ticket requests to no more than 4 tickets.)

If you have an IRA or 401(k) and will be eligible to collect Social Security during retirement, you should attend.

This free meeting will show you:

- How to potentially, **significantly reduce taxes on your IRA or 401(k) plan**
- How, under the law, planning strategies **exist that may allow you to pay zero taxes during retirement**. These planning strategies are potentially favorable for only a **limited time**
- Why maximizing Social Security benefits will not work **unless you address the ultimate tax liability on your retirement account**
- Why the tax deduction you get for contributing to an IRA or 401(k) can be a bad thing. **This tax deduction may ultimately end up costing you more than you benefit.**

Tickets for the event are required but available by visiting www.TaxFreeInRetirement.com.

Or, you may call **1-866-879-0137 ext. 1207** anytime, 24 hours per day, 7 days per week with your ticket requests.

IMPORTANT: There will be no presentation to buy financial products at this meeting. The meeting is informational only in nature.

Communication Note Reminder

To provide you with the best possible service and best response time, please remember to call the office rather than communicating via e-mail. Just let the receptionist know what we can do to help, and you'll be put in touch with the right person or have a call scheduled with you and the right person at a mutually convenient time.

The office phone number is:

1-866-921-3613

Our office hours:

Monday to Thursday
8:00 AM to 5:00 PM

Fridays
8:00 AM until Noon.

Sources

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