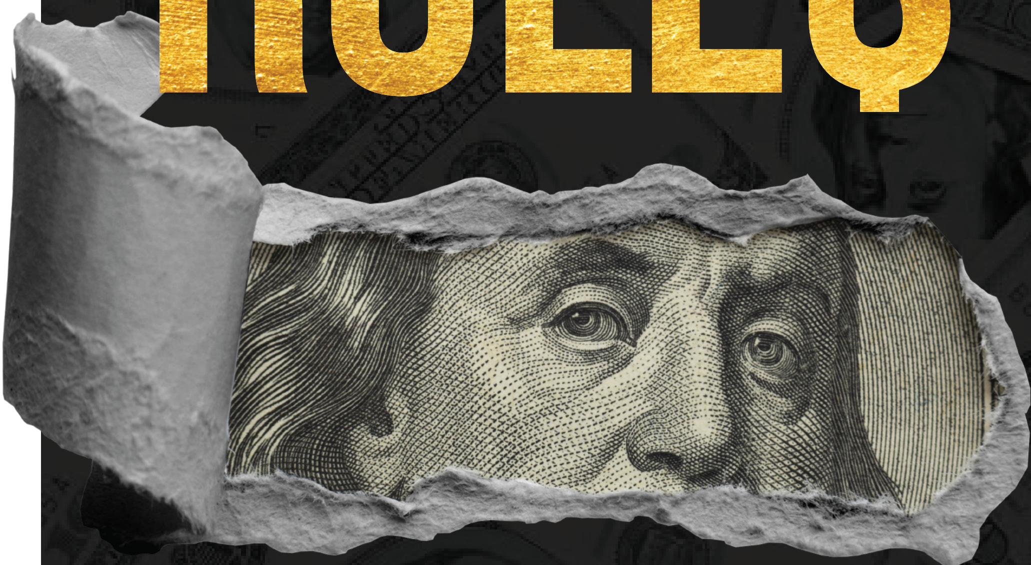
AN EXCERPT FROM

MONEY RULE$



CHAPTER 8

BANKING

HARRY ABRAHAMSEN

Introduction

Money Rules is not your typical book about money. It is an overarching mindset written for people who want to maintain massive wealth. When you know the rules of how money really works and the ideas and strategies within Money Rules, you will be able to build and protect your money, not just have momentary fortune.

The philosophies and approaches in this chapter are presented to you by Harry J. Abrahamsen, and while you may be able to implement many of them right away, they are not to be mistaken for direct advice. Money Rules empowers you to be the master of your own wealth—your advisors are just one piece. At this point, you have been introduced to one aspect of the macro mindset. Make sure to read the rest of Money Rules to move into mastery.

Written for Influential Individuals, Entrepreneurs, Business Owners, and Families with Money. Though I dare anyone to pick it up and read it now.

There are many books written for individuals who are seeking to build wealth, but when you reach the point of impressive success and multiple commas to your name, you may be reliant on your inner circle with your decisions about money. You feel you have control, but you are just a few mistakes away from sacrificing everything.

This book is written for you, and in it you will find out the things you are missing, no matter how diversified your portfolio is or what you think you know about money. When you know the rules of how your wealth really works and the ideas and strategies within, you will be able to build and protect it, not just have success for a moment.

This book is not about what's right or what's wrong, it's about doing things the right way.

RULE

The best bank is the one you build.

CHAPTER 8

Banking

You have a standard, and it is as specific as the success you have attained. In your study you have a hand carved bar with a story behind it that you tell to your guests when they point out the beauty of the wood. You appreciate it because you know its history, because you know where it came from and why. You have courtside access, but you prefer the box seats that have been in the family for years. You've invested in a property where you are proud to host dinner parties with your private chef. Every shirt you have is from a renowned designer who is a friend of yours, or maybe the designs are your own. Your family jeweler crafts signature pieces for special occasions with your spouse. The places you stay when you travel may not even be listed in the guidebooks. Every item that you surround yourself with is authentic and original; there is meaning in all you seek to experience. You appreciate the process and the story within everything you touch. Sophistication and specificity drive your decisions down to the most precise detail.

When it comes to your finances though, you might be surprised you're not getting top shelf. Your investment banker might show you something that looks immediately attractive, and you trust it because you've worked with them for a while and they have worked with many respected influential people—you go with their strategy simply because it has worked in the past. Your finances might not immediately seem second-rate, but they're not premier, they're not masterfully done. They're not full-grain leather. You don't see this because you're not shown it. You don't know what is possible when you move from great to grand in this, because it's never been shown to you.

If you wish to be the master of your wealth, you must not be interested in anything but the haute joaillerie of wealth-building. You must be as sophisticated and discerning with your strategies as you are with the things you buy, and this must move well beyond your traditional power threes; it must apply to everything you do—the way you buy a house, travel, pay for a jet. Just as your wealth affords you your eye for a Patek Philippe or Audemars Piguet, it requires you to have strategies that are far beyond the standard.

As with the items you bid for and the way you dine, one of the most important factors in building a premier strategy is sourcing.

Most wealthy people source money from themselves. They pull straight from their accounts, they drink from their own well. But this is a missed opportunity. It is the standard, not the premier strategy, and it does not offer the best reward. It's like cooking at home. It might be satisfying, it might be good, maybe very good, but it won't be the best in the world (unless you are Alain Ducasse). It won't offer the balance of flavors, unique culinary savoir-faire, or the mouthfeel of Ducasse's Rum Baba. It won't be masterful.

The best way to source money is to use other people's money, or *OPM*. This money might come from the bank, an investment company, an individual investor, a family member, or an insurance company. Strategies that use OPM are focused on offloading the risk of investments by using alternate sources of money, rather than one's own assets. This is essentially "borrowing" money to build wealth.

Sometimes people do not think to borrow because they don't think it is necessary. They have enough money sitting in the bank—why do they need to borrow anything when they can simply throw their money at problems and purchases? Some people are uncomfortable with the idea of owing money; they associate it with being beholden to something, and many micros support this fear-based mindset. But if you want to build massive wealth, you must understand the true cost of paying upfront, particularly with the biggest ticket items and interests. You must become intelligent about the idea of borrowing in the same way you must be realistic about your wants.

What matters in borrowing arrangements is not that you are borrowing in the first place or how much you are taking; what matters is where the money is sourced from and what the arrangement is. Imagine you have a business you want to bring to fruition. You've spent years building wealth so that you may leave a legacy that you're proud of, something that you will pass on to your children, and they'll pass to your grandchildren. This might be the restaurant with authentic cuisine from your family background, the innovation you've made, or simply something better than what's in the market. You would take pride in bringing your money to the table to start this business of yours. That is a beautiful thing; it would surely be satisfying to use your savings, and it may bring some success. But would using your money (or the bank's money) be the very best way to build this business? Or would it just be standard-issue?

Masters of their wealth know how to birth businesses and buy whatever they may imagine while keeping their own money for themselves. The way to do this is by leveraging OPM in the most important macro wealth-sourcing strategy there is—building your own bank. This is so significant that it may become the basis of your own approach to building wealth, and if you walk away from this book with just one thing, it should be this strategy.

Building the Bank

Building your own bank is the strategy of borrowing money from an insurance company to fund something you want (whatever it is). With the right policy, this approach makes your power one insurance behave like a bank that you yourself manage. With it, you deposit and borrow on your own terms, without paying any tax and without the requirement of paying the money back.

The important thing about this strategy is that you have to be specific and unwavering about which policy you use, and you have to structure it the right way. You must be the grandmaster; the insurance company won't help you with your macro strategy, and you have to be impervious to their attempts to seduce you into something that won't stand up. I'm not going to get into every policy available, but what I am going to teach you is how to secure the right policy and make it behave like a bank, without being subject to any potential pitfalls.

Insurance agents are micro, and they are not typically savvy about, experienced in, or interested in using insurance in a macro way, so they will push policies that are immediately interesting but not sustainable for building your bank or your other macro strategies. Insurance companies are experts at managing risk, and they specifically design policies that seem desirable yet push unnecessary risk onto you. Some may specifically design illustrations to make the policies appear better than they are. You must not fall for the smoke and mirrors. The risk should always belong with the insurance company. (FYI, if the policy looks better than a power three market investment, you would be taking on too much risk.) Power ones are not about high internal rates of return, and you must be wiser than to be taken in by first impressions.

Selecting the right policy is about seeking the right fit, rather than falling for the most immediately attractive item. Imagine you are playing matchmaker for a friend who wants to find a serious mate. You have many people in mind, and all of them would be open to meeting your friend. There is someone who is an ideal mate physically-speaking and who many people would fall in love with on the spot, but you know that this person is still in the midst of a miserable marriage and is buried in gambling debts. There is someone else that is somewhat attractive, but they have no intention of being in a serious relationship and have very few interests that your friend would share. In addition to a few more similar choices, you know someone that your friend wouldn't notice on their own. This person shares the same interests and desires as your friend and is intentionally seeking a relationship, and you believe that deep down your friend would be interested in this person if they really knew them. Who do you think you would set your friend up with?

Your insurance agent will offer you policies that seem much sexier than the whole life insurance required for this strategy. But they are not your best friend. They don't know the important details about you, what your history is, what your true desires are; they just know what most people would be interested in immediately. Maybe they're the most above-board agent out there, and they're not trying to ruin you by presenting you with more seemingly interesting policies. They just don't have the information they need about you, and perhaps not even the right information about the policies themselves, and they may be tied to the interests of the company they represent. They will be poised to promote the most attractive option because they want you to purchase their brand. Because of this, you have to be the one to guide them. You must insist on what you know is the plan for you. You must be your own advocate, without wavering, or you may end up with the wrong plan.

The right insurance is dependent on the right carrier.

You must always work with a mutual insurance company, not a stock based insurance company. With a mutual insurance company there are no shareholders, only policyholders. When the company is profitable, they distribute the profits via dividends to the policyholders (that would be you). With a stock based insurance company there are shareholders in addition to the policyholders. When the stock based insurance company is profitable they are required to pay the shareholders first and then pay out remaining profits to the policyholders. You want to stick with the mutual insurance company and be the first on the docket.

Additionally, it's imperative that the insurance carrier is a non-direct recognition company. Many people make the major mistake of making their decision based on the illustrations alone and not paying attention to the company itself. The difference between direct and non-direct recognition carriers is similar to the difference between the 2021 Lamborghini Huracán STO and the 2021 Mercedes-AMG GT Black Series. From the outside they both look like high performance machines with stellar reputations and features, but there is an important distinction: the Lamborghini STO is almost twice the cost of the Benz GT Black series, yet the GT has a higher top speed. The Lamborghini might be sexier, but it doesn't meet the same standard in terms of performance. Similarly, direct recognition companies have impressive illustrations, but the minute you try to use their policies to build your own bank they fall apart in your hands, unraveling before your eyes. When you attempt to use the accumulated mountain of cash value that you've built in the policy, direct recognition companies begin to limit its growth potential moving forward. They lure you into the idea of using their capital with promising initial projections, but when you actually move forward they resurrect a wall around what you are able to access and earn. They essentially slap your hand for borrowing their money, punishing you for trying to cash in on their promise. Instead, a non-direct recognition company allows you to borrow against 100% of the value without impacting the internal growth of the policy and without a ceiling. Whether you are borrowing to fund exorbitant college tuition or buying a villa in Italy, with a non-direct recognition company all that you have built will remain intact inside the policy. They are the only kind of insurance company with which you can build your own bank. (By the way, the insurance company must also carry an "A" credit rating. They must meet the highest standard.)

WARNING: THE INTRUDER

One word of caution: there are some insurance companies that will offer a different type of solution that is absolutely, indisputably inadvisable. These insurance carriers are frequently direct recognition companies. (You know already you must be wary of direct recognition companies when building your bank because they slap your hands for borrowing their money.) As an alternative to borrowing their money, these insurance carriers might suggest that you borrow from an actual bank, using the cash value of your policy as collateral. This is a mistake you must never make. (It's a bad sign when someone suggests that you stay away from their offering and go somewhere else…) Buying into this pitch is a trap, because it puts you back into the hands of a bank, potentially impacting your credit score.

Banks don't behave in the same way insurance companies do. They must be paid back. They are only interested in getting money from you. Insurance companies don't require you to pay back what you borrowed—only the interest has to be paid. They guarantee every penny you have, and they offer maximum protection. Do not get lured in by the lower interest rates. Lending from the bank will change the entire structure of your strategy and goes against the reason you got insurance in the first place. Insurance company interest rates are what they are, and they are worth it. Would you rather be paying taxes? If you've got millions and millions in a policy, you better not be micro. Take the insurance company's money and run...in the opposite direction of the bank.

The insurance itself must always be plain vanilla *whole life insurance*, the good old fashioned kind of insurance that's been around for over one hundred years and doesn't have a ton of bells and whistles. You must know, however, that the whole life policy is often mistaken for other types of policies that are presented with the phrase "whole life" but are not actually whole life policies in the purest sense. When insurance agents pitch these, they give the impression that the policy in question will benefit you throughout your "whole life", but it has really been designed very differently than an actual whole life policy. Maybe the policy will *last* for your whole life (and I say this very generously), but it's not whole life insurance. For example, the universal variable life policy is a variation of the whole life policy, but it doesn't work the same way, and it transfers the risk to the policyholder in service of the insurance company's balance sheet. The other major deception is the Index Universal Life policy (IUL). This is the hottest ticket in town and agents pitch this policy like it's the second coming of Jesus. This policy is a one trick pony. It can be borrowed against, but it doesn't provide uninterrupted growth (which is exclusive to the chassis of a whole life policy). It is not a purebred, and you cannot build a bank with a mixed breed policy. You must stick with the premier whole life insurance.

Tradition doesn't belong in finances—except when it comes to whole life insurance.

When you apply for your whole life policy, you should establish a monthly or annual premium in whatever amount you prefer, and this premium should be maintained throughout the term of the policy. This shouldn't be based on the death benefit, just the budget for what you will want to spend from it. It's best to use a *limited pay policy*, in which the policy is contractually paid up by a predetermined date. Some policies may be funded over a 10 year period, paid up to age 65 or 75; some allow a custom date, but the main idea is that the policy is fully funded within a fixed timeframe.

For this strategy, in addition to the premium, you may make contributions beyond the base amount to boost the amount of cash value inside the policy. The policy's internal rate of return will build wealth over time, so the more money you put in, the more money comes out. Eventually all of the premium payments (base plus additional contributions), as well as the growth will convert into cash value. This cash value represents the amount that you will be able to borrow from the insurance carrier—to *borrow against the policy*. With the whole life policy, this amount is guaranteed never to lose value: the amount will never drop. That means if you have $1 million in cash value, you can borrow $1 million from the insurance carrier and still have $1 million intact building more money for you. This money, plus any further money that you contribute, continues to grow exponentially no matter how much you borrow, for your whole life. So if you invest in a bad private equity deal or your business doesn't pan out, you simply aren't able to borrow that amount of money again. That is it. You don't ever have to pay it back, and your policy just keeps growing, despite the bad investment decision.

It is important to realize that the initial cash value of the policy during the first few years may appear to be slim, but you won't have to worry about waiting to access it. If it were a power three, the wise choice would be to wait until the investment reaches the point of exponential growth before you begin to significantly tap into it. This is not true with power one insurance. Because you will never be touching the money itself and simply what that money represents in borrowing power, you may borrow money the moment that you have accumulated value in the policy.

People who chase rates of return overlook insurance policies because they show a modest rate of return in and of themselves. If you take a micro view, the policy does not bloom as fully as a power three and you may think that it's a bad "investment" because it has a lower internal rate of return. But if you're building your own bank with the policy, the real rate of return is built *outside* the policy, not *inside* of it. Think about this: with power three investments, the idea is to keep seeking higher rates of return by moving one investment to another investment. When you take money out of these investments it reduces the principal and the resulting growth potential. With your power one insurance policy the money behaves very differently, because you don't have to sacrifice a principal balance and growth potential. When you borrow from it you keep building wealth with the internal rate of the policy while moving money to invest in whatever you want. And you never have to pay it back.

This strategy is basically spending your death benefit while you're alive: when you die, the death benefit will be reduced by the amount you've borrowed against the policy and the remaining death benefit will be paid to your beneficiaries. With it, you'd have bought whatever you wanted, invested in more of your powers, left behind an inheritance, and built a legacy for your family for generations to come.

Implementing this strategy is similar to taking the first sip of Château d'Yquem. You will never experience things the same way again. When you begin to build your own bank you will never be satisfied by paying excess tax or putting your wealth at risk. Your standard for financing will rise to match the prestige and style that you have with all things. And it must match if you want to maintain your way of life. Borrowing from the insurance company improves your taste in financing, and when you master this strategy you can bring this refined palate with you to multiple scenarios, measuring all things against this bar.

BORROWING FROM THE BROKERAGE FIRM

Brokerage firms frequently offer the opportunity for investors to borrow against their portfolio within the firm. The firm provides this line of credit as a service for their clientele to access capital if they have a cash crunch due to capital gains tax or if they want to transfer some money to their kids.

There are a few caveats to borrowing from the firm. First, the money can never be used to invest in securities, and private equity deals are themselves classified as a security. Additionally, the amount the firm will allow you to borrow will depend on your investment holdings. You may be able to take 20-30% of your account value, but this is a moving target depending on the state of the market.

The most important thing to note is that your investments within the firm are held as collateral, meaning that if the line of credit gets called or something goes badly wrong, you will have to liquidate a portion of your portfolio (God forbid any Tesla stock) to pay them back from what you borrowed. Furthermore, if you have a concentrated position and a specific stock experiences significant loss, your credit line will be negatively impacted since that stock was part of the loan's collateral. This is a strategy in which you want to stay inside the lines, but this might be a piece for your board if it fits your situation.

Tactic: The Ferrari

Power 1
Micros involved: Dealership, Insurance professional
Wealth Accumulation and Wealth Distribution phases

The Ferrari 812 GTS cost $450,000 in 2021. If you wanted to buy this car with your money you'd walk into the dealership, make a simple trade, and say goodbye to almost half a million dollars and all the earning potential it represents overnight, skidding right down your exponential curve. If you decided to finance the car instead, you might plunk down $47,500 because why not and finance the rest over 60 months for a monthly payment of $8,450. This is the epitome of the micro mind at work. You see a car, you either pay in cash because you can or accept the dealership's terms. That's how people pay for cars, right? But if you do this you end up in the hands of a bank and pay more than you need to or spend money that you will never see again.

In the Ferrari tactic, instead of paying cash or financing through a bank, you call your insurance company and instruct them to wire $450,000 of their money into your bank account. Remember, this is a non-recourse loan, so there's no need to pay them back. If you want to pay it back, because you have the money and might as well increase your policy's potential with it, you can decide on any installment you want. In this example, say you want to pay back $300 a month. Since you can also pay the interest on the loan from your policy, your net out-of-pocket monthly expense would remain $300. Of course, that doesn't include the costs of caring for the vehicle, but that's just part of owning a Ferrari.

The best part of this tactic, besides the bragging rights of driving around in this machine while paying peanuts, is that your $450,000 sitting in your policy is growing just as if you never bought the car in the first place. Keep in mind, if you don't initially have that amount in the policy and you were willing to pay cash, you'd just move the money from your bank account into the policy, and then borrow against it within the month. Instead of putting that money straight into the car with no reward, you'd be increasing your wealth while you spent it.

Tactic: The Ultimate Black Card

Power 1
Micros involved: Credit card companies, Insurance professional
Wealth Accumulation and Wealth Distribution phases

Credit cards should be used for the sake of benefits programs only. They were built to be interest-accruing vehicles for banks and were designed to leech money from people who don't have the means to pursue their preferred way of life or the foresight to plan for it. You should never be paying the bank for your regular purchases. This strategy is not to avoid them but to enjoy their benefits without throwing any money away on interest.

You probably have many cards—J.P. Morgan Reserve, the Citi Chairman, the Centurion Card, some with an airline you prefer, and some premier retail cards. Each of these will offer their own rewards programs and VIP treatment in order to vie for their share of the pie and lure people into racking up debt and giving them interest If you pay them off before the balances are due, you will work the system and will be able to enjoy the benefits of the memberships and improve your credit rating, without any interest.

You may turn the simple task of making these payments into a wealth-building strategy by borrowing money from the insurance company. You'd fund a power one insurance policy with a portion of your income, then use it like a bank on an ongoing basis to pay the amount due on your cards. You would borrow against it on a schedule, essentially funneling the money through the policy to maintain your exponential curve while you pay for your wants.

Being wealthy is about maneuvering every piece on the board in favor of maintaining your preferred way of life. While you can just pay off the card out of pocket, the extra step of moving it into the policy first increases the potential of your exponential curve—without this move you're just throwing money out the window. By combining the benefits of credit cards and of borrowing from the insurance company you are increasing your wealth and improving your way of life, even as you spend.

This strategy doesn't just work for credit card payments. You can use the same tactic to fund any purchases you make with your debit card: move cash into your insurance, then borrow it, and put it into your bank (or preferred spending account) to buy in the way you usually would, essentially gilding the money before using it.

Tactic: Reinventing Your Policy

Power 1
Micros involved: Insurance professional
Wealth Accumulation and Wealth Distribution phases

Most micros think that when you've borrowed almost all the available cash value, the policy is finished and ready to be put out to pasture. But this horse is not ready to be taken off the track. It's a thoroughbred, it has stamina. While I suggest you have an overarching strategy for what you're doing with each policy you have, you can shift at any point in time depending on the changing winds or your internal desires. Power one insurance is resilient when funded, and it can be reinvented and reincarnated many times. It is a balloon that you may reinflate at any point in time.

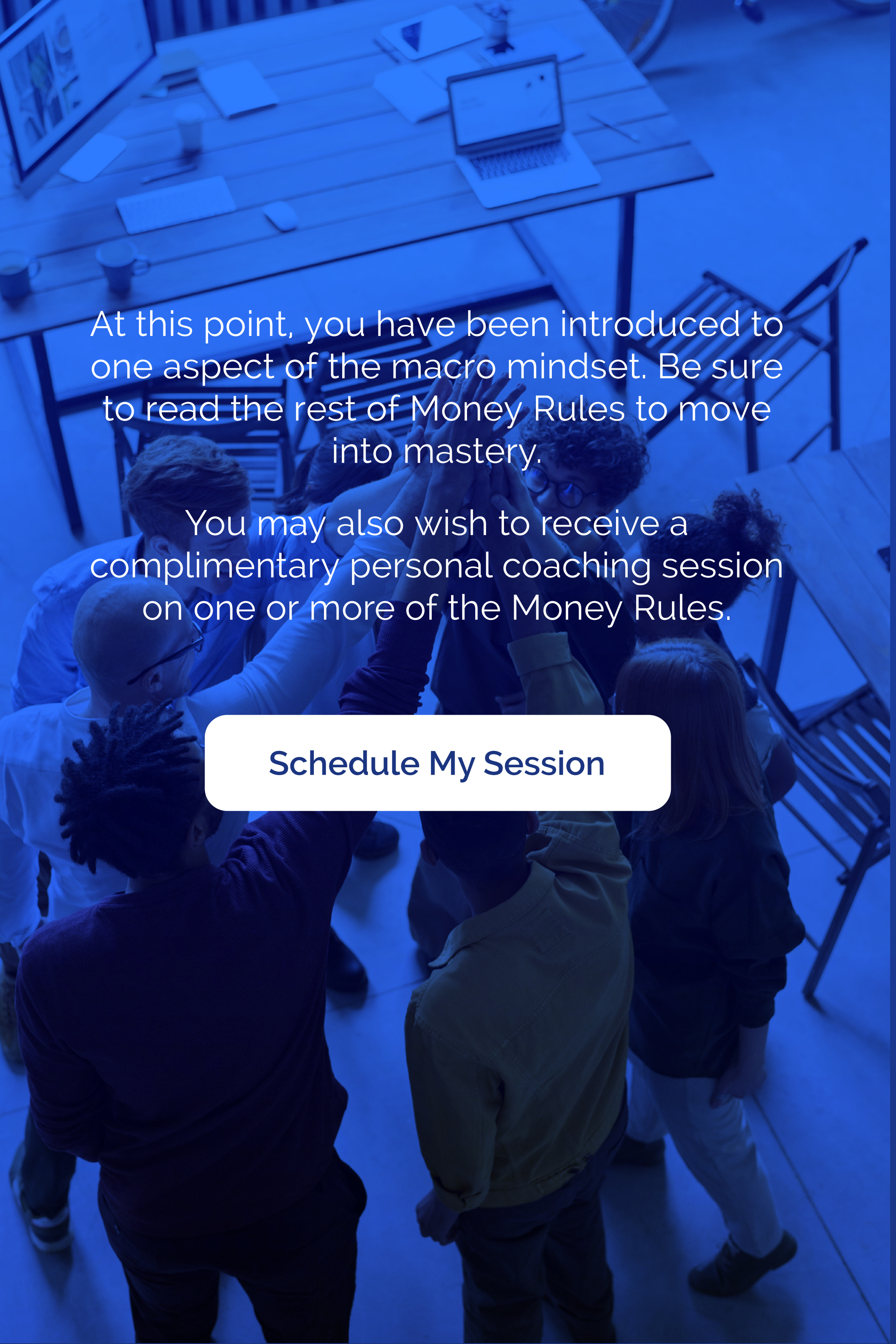
You may wish to stop using your insurance like a bank at some point and instead implement it for, say, for the death benefit, or for permission to spend, or any other of the insurance-based macro tactics. It's entirely possible to reinvent your insurance to pursue multiple more strategies with it—without forfeiting your policy's exponential curve.

Say you were using your policy like a bank to support your business, and at some point your business reached the point where it was time to exit. Throughout the years you'd borrowed almost the entire allowable amount in order to fund your business, and maybe in the final years you didn't have the cash flow to even fund the policy. But as the tactician, you decided to assess and adjust for the best course possible. You initially used the policy as a bank for your business, but when you sold the business, you wanted to tack. (One of the most popular options here would be to turn it into a source of tax-free income, a strategy which I share within the tax intelligence chapter.)

To reinvent your policy in this situation, you would use a portion of the proceeds from the sale of your business to pay back the loan. This would put the policy back to its original status to be used in any way imaginable. 100% of the cash value that was ever in the policy—including all of the growth that compounded over the years—would remain inside the policy, despite the fact you were borrowing tons of money from the insurance company to get your business running. By paying back what you borrowed with the money from the exit, you would be able to change strategies, and your policy would behave as new, but with tons of accumulated cash value.

Being the grandmaster requires you to have both distinction and intelligence. You must have the taste, the sophistication, and the knowledge to tap into the best source of money there is. Building your own bank, and similarly intelligent borrowing strategies, is one of the biggest and most important secrets of putting money to work.

If your standards are impeccable to the point of being beyond what most people are able to comprehend, if you desire perfection and crave distinction, this strategy is the way for you to massively build and protect your wealth. It is for those who want the best of the best. It is the master's way. Why take the Eurorail when you could travel on the Orient Express?



At this point, you have been introduced to one aspect of the macro mindset. Be sure to read the rest of Money Rules to move into mastery.

You may also wish to receive a complimentary personal coaching session on one or more of the Money Rules.

Schedule My Session

WRITTEN FOR INFLUENTIAL INDIVIDUALS, ENTREPRENEURS, BUSINESS OWNERS, AND FAMILIES WITH MONEY

9 RULES TO MASSIVE WEALTH

MONEY RULE$

Not your traditional book about money

HARRY ABRAHAMSEN