BankNotes

November 2009

NELSON NASH'S MONTHLY NEWSLETTER

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Nelson Nash's live BYOB - IBC seminars for the next two months

Tuesday-Wednesday, 3-4 November, Birmingham, AL, Russ Morgan, 205-871-9993 ext 251, russmorgan@nowlinandassociates.com

Thursday-Friday, 5-6 November, Columbia, SC, Michael Trent, 803-466-0982, mtrent8@gmail.com or Keith Barron, 803-695-1360, krbarronsc@gmail.com

Tuesday-Wednesday, 10-11 November, Hillsboro, TX, Charlie Jackson, 800-583-5865, charlie@bcbstexas.com or nancy@bcbstexas.com

Thursday-Friday, 12-13 November, Boerne, TX, Janet Sims, 830-331-9805, janet_sims@financialprocessgroup.com

Tuesday-Wednesday, 17-18 November, Glendale, CA, John Andraos, Andraos Capital Management, 818-551-6600 ext238, jandraos@andraos.net

Monday-Tuesday, 1 December, Houston, TX, Clay Campbell, 281-359-7728, claycampbellfeg@yahoo.com

Thursday-Friday, 10-11 December, Dallas, TX, Joe Kane, Personal Economics Group, 512-659-5658, jkanesat@aol.com

Mark your calendar for the next Semi-Annual Infinite Banking Symposium - 16-18 February, 2010.

Nelson's Favorite Quotes of the Month

"When the student is ready, the teachers will appear."

"Your success is only determined by the size of your thinking."

"How you think determines how you act, and how you act determines how other people react to you."

"How you look determines how you think and feel, and peoples' first impressions last."

"All lasting change starts inside and works its way out."

"See things as things can be, not as they are, especially yourself."

"Anything the mind of a person can conceive of, and believe in, it can achieve."

"If you don't know why the how doesn't matter."

"Happiness is not pleasure, it is victory."

"All things are possible to them that believe."

Nelson's newly added Book Recommendations

Why American History Is Not What They Say; An Introduction To Revisionism by Jeff Riggenbach

The Tipping Point: How Little Things Can Make a Big Difference by Malcolm Gladwell

Nelson's favorite articles from the last month's reading

The Second Battle of Copenhagen

by Patrick J. Buchanan

Recently by Patrick J. Buchanan: Black Sea Wars

Before President Obama even landed at Andrews Air Force Base, returning from his mission to Copenhagen to win the 2016 Olympic Games, Chicago had been voted off the island.

Many shared the lamentation of Indiana Gov. Mitch Daniels, "What has become of America, when Chicago can't steal an election?"

A second and more serious battle of Copenhagen is shaping up, in mid-December, when a world conference gathers to impose limits on greenhouse gases to stop "global warming." Primary purpose: Rope in the Americans who refused to submit to the Kyoto Protocols that Al Gore brought home in the Clinton era.

The long campaign to bring the United States under another global regime – the newest piece in the architecture of world government – has been flagging since 2008. Then, it seemed a lock with the election of Obama and a veto-proof Democratic Senate.

Why has the campaign stalled? Because global warming has stalled. The hottest year of modern times, 1998, came and went a decade ago.

As BBC climate correspondent Paul Hudson writes: "For the last 11 years, we have not observed any increase in global temperatures. And our climate models did not forecast it, even though manmade carbon dioxide, the gas thought to be responsible for warming our planet, has continued to rise."

What this powerfully suggests is that what man does and does not do is far less responsible for climate change, if it is responsible at all, than other factors over which he has no control.

Consider. Though the emissions of carbon dioxide rose constantly throughout the 20th century – with the industrialization of the West, Japan, Southeast Asia and, finally, China and India – global temperatures have not risen steadily at all. They have fluctuated.

John Sununu, writing in the St. Croix Review, says the Earth underwent "cooling in the 1920s, heating in the 1930s and 1940s, cooling in the 1950s and 1960s and 1970s, warming in the 1980s and 1990s, and cooling in the past decade."

But if there is no crisis, why are we even going to Copenhagen? And if there is no causal connection between carbon dioxide and global warming, what is the true cause of climate change?

Some scientists say that 98 percent of the Earth's temperature can be explained by the sun. When the sun's energy increases, a matter over which man has zero control, the Earth's temperature rises. When the sun's energy diminishes, the Earth's temperature falls.

One solar scientist, Piers Corbyn, claims to have found a link between solar charged particles hitting the Earth and global warming and cooling.

Others, like professor Don Easterbrook of Western Washington University, contend that the oceans explain climate change. As they heat and cool cyclically, the Earth heats and cools. And where the oceans were cooling for 40 years before the 1990s, they have lately been heating up. Easterbrook says these cycles tend to last for 30 years.

As Hudson notes, there are scientists who claim they have taken all these factors into consideration and insist that the Earth, over the long haul, is warming. But Hudson cites Mojib Latif of the Intergovernmental Panel on Climate Change, who says we are in the fist stage of a long-term cooling trend that will last another 10 to 20 years.

The anecdotal evidence almost daily contradicts Al Gore and the end-of-times environmentalists. Lately, there have been record-breaking cold spells in the Midwest and West. Snow came to Colorado this October, postponing a baseball playoff game. The hurricane season turned out to be among the mildest on record. Contrary to predictions, the polar bear population seems to be doing fine.

While the ice cap at the North Pole is receding, the Antarctic ice cap, which contains 90 percent of the world's ice, is expanding.

Moreover, receding ice in the Arctic is opening up a northwest passage from Europe to Asia. The Russians believe the immense mineral resources of the Arctic may soon be accessible. While we wring our hands, they are rushing to get them.

The mounting evidence that global warming has halted and man is not responsible for climate change has thrown the Kyoto II lobby into something of a panic. Barbara Boxer and John Kerry are re-branding the Senate cap-and-trade bill as a national security measure.

If, however, cap-and-trade, which the Congressional Budget Office says will be another blow to economic growth, can be stopped before the Copenhagen summit in December, the republic may have dodged another bullet. And the goal of the globalists – an end to the independence and sovereignty of the United States, and the creation of a world government – will have sustained yet another welcome postponement.

October 17, 2009

Patrick J. Buchanan [send him mail] is co-founder and editor of The American Conservative. He is also the author of seven books, including Where the Right Went Wrong, and A Republic Not An Empire. His latest book is Churchill, Hitler, and the Unnecessary War.

Inevitable and Disgraceful, But Still Unpredictable

By Bill Bonner

Here at The Daily Reckoning, we take the part of the underdog… the downtrodden and the despised. Who fits that description now? Who is held in lower esteem than child molesters? Who gets less respect than smokers? Who is in a lower caste than hewers of wood and drawers of water? We're talking, of course about the toilers on Wall Street. So today, we take their part, because no one else will.

Who's to blame for the worldwide financial meltdown, a crisis that has so far wiped out a notional $30 trillion dollars…give or take a trillion or so?

"Lax central bankers…reckless investment bankers…the hubristic quants," says Niall Ferguson, writing in Vanity Fair. "Regulate them," is the universal cry. "Tax them," say the politicians. "Hang them," say investors.

First, let us look at the charges:

They skinned millions of investors – with their outrageous bonuses, spreads, fees, incentive shares, performance charges, salaries, and "profits" – leaving the financial industry severely under-capitalised… and unprotected.

Guilty as charged.

They ginned up "securities" that no one really understood and sold them to unsuspecting investors, including widows, orphans, colleges, pension funds and municipal governments.

Uh… guilty again.

They put the whole financial world in a spin – churning positions back and forth between each other in order to collect commissions… leveraging… flipping… stripping assets… securitising… derivatising… making wild bets based on flim-flam mathematics….

No point in going on about it… guilty.

Yes, the financial hotshots did all these things. And more. They sold the world on 'finance,' rather than making and selling things. Then, it was off to the races. Everybody wanted to bet. Perfecta, place bets, odds-on… double or nothing.

Of course, investors would have been better off at the race track. The track takes about 20%. In the financial races, Wall Street took 50% to 80% of all the profits.

Before 1987, only about one of every ten dollars of corporate profits made its way to the financial industry – in payment for arranging financing, banking and other services.

By the end of the bubble years, the cost of 'finance' had grown to more than three out of every 10 dollars. Total profits in the United States reached about $6 trillion last year; about $2 trillion was Wall Street's share.

What happened to this money? Other industries use profits to build factors and create jobs. But the financial industry paid it out in salaries and bonuses – as much as $10 trillion during the whole Bubble Period. And now that the sector finds itself a few trillion short, it waits for the government to open its purse.

But Wall Street's critics have missed the point. Yes, the financial industry exaggerates. But so does the whole financial world. Both coming and going. It's madness on the way up; madness on the way down. Investors pay too much for "finance" when the going is good. And then, when the going isn't so good, they regret it. This regret doesn't mean the system is in need of repair; instead, it means it is working.

The financial industry was just doing what it always does – separating fools from their money. What was extraordinary about the Bubble Years was that there were so many of them. There is always smart money in a marketplace… and dumb money.

But in 2007 there were trillions of dollars so retarded they practically cried out for court-ordered sterilization. What other kind of money would pay Alan Fishman $19 million for three weeks' work helping Washington Mutual go bust?

Whence cometh this dumb money? And here we find more worthy villains. For here we find the theoreticians, the ideologues… and the regulators, themselves, who now offer to save capitalism from itself. Here is where we find the bogus statistics, the claptrap theories and the swindle science.

Here is where we find the former head of the Princeton economics department, too, Ben Bernanke… and both Hank Paulson and his replacement, Tim Geithner. Here, we find the intellectuals and the regulators – notably, the SEC – who told the world that the playing field was level… when everyone could see that it was an uphill slog for the private investor.

"Six Nobel prizes were handed out to people whose work was nothing but BS," says Nassim Taleb, author of The Black Swan. "They convinced the financial world that it had nothing to fear."

All the BS followed from two frauds. First, that economic man had a brain but not a heart. He was supposed to always act logically and never emotionally. But there's the rub, right there; they had the wrong guy. The second was that you could predict the future simply by looking at the recent past.

If the geniuses had looked back to the fall of Rome, they would have seen property prices in decline for the next 1,000 years. If they had looked back 700 or even 100 years… they would have seen wars, plagues, famines, bankruptcies, hyperinflation, crashes and depressions galore.

Instead, they looked back only a few years and found nothing not to like.

If they had just looked back ten years, says Taleb, they would have seen that their "value at risk" models didn't work. The math was put to the test in the LongTerm Capital Management crisis… and failed. Their models went sour faster than milk. Things they said wouldn't happen in a trillion years actually happened while Bill Clinton was in still in office.

In the real world, Taleb explains, things are stable for a long time. Then, they blow up. Then, all the theories and regulators prove worthless. These blow ups are inevitable, but unpredictable… and too rare to be modelled or predicted statistically. "And they are almost always much worse than you expect."

Until next time,

Bill Bonner

The Daily Reckoning

November 28, 2008

Looking At a Life Insurance Policy Over a Long Period of Time

By R. Nelson Nash

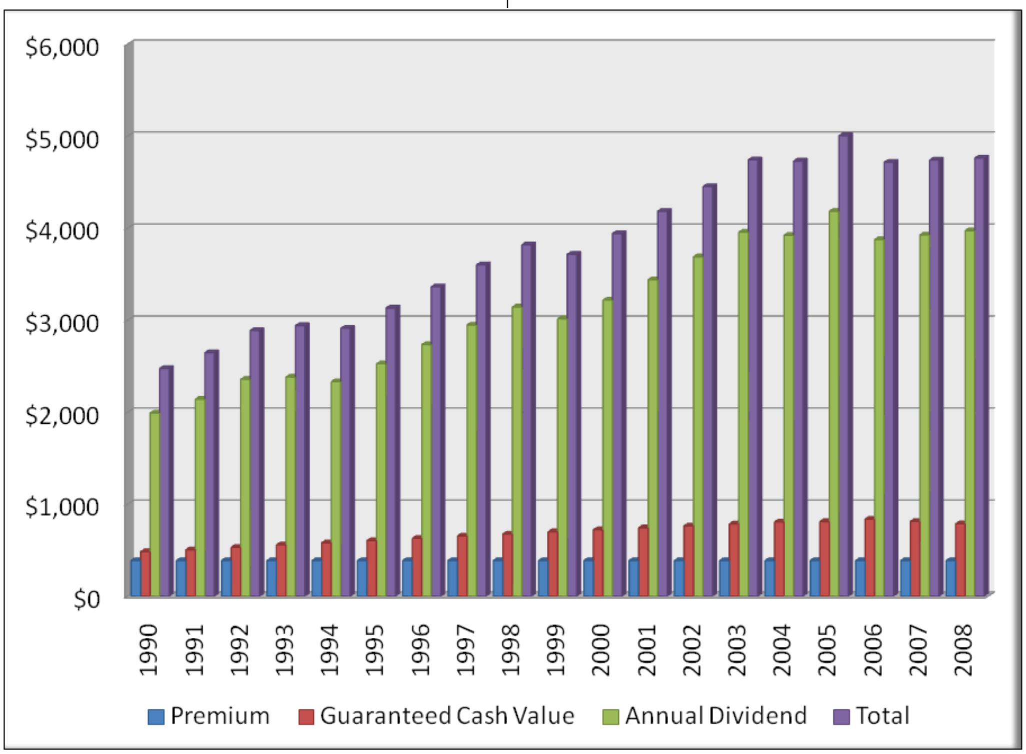
After 10 years of working as a Consulting Forester, working in the life insurance industry as an agent for 35 years, and lecturing on the subject of life insurance for an additional 8 years, plus purchasing lots of life policies beginning when I was age 13, it is evident to me that people just don't look at the performance of a dividend-paying whole life policy over a long enough period of time. They only consider the results during the first few years --say, 10 years at the longest.

Such a policy is engineered to get better, every day, as long as the policy is in force. The earlier one starts, the longer one continues, the better the policy gets.

Since I was educated as a Forester, I tend to think about things over a much longer period of time, something like 70 years. I'm not going to be here that far in the future, and you probably won't either. But, I see nothing wrong with "thinking" that way. "Plan as if you are going to live forever -- but, live as if you are going to die today" sounds like a good idea.

Take a look at the results of the last 17 years of a policy I bought from State Farm Life in 1959 to adjust your own perspective. I bought this policy from my brother, a State Farm Agent, while I was a Forester in North Carolina.

At the time of this writing, the policy is 48 years old. That's a little less the one-fourth of the time that whole life insurance has been in existence. The bars on the graph represent the actual performance on a year-to-year basis. That is, you are not looking at cumulative results. For instance, in 1990 I paid $388.40 premium. The Guaranteed Cash Value increase, that year, was $500.00. The dividend, that year, was $2,000.00. The total increase in cash value was $2,500.00. The increases for each of the following years were added to the values of the preceding years.



Now, look at the year 2005. Notice that the Guaranteed Cash Value increased $800.00 and the dividend was $4,200.00 resulting in a $5,000.00 total increase that year. Of course, all I paid that year was $388.40.

The $388.40 premium doesn't sound like much money to you -- but, a 28 year old in 1959 who was making $10,000 per year was "above the average bear." So, that premium in proportion to my income was a pretty significant matter.

Notice that the dividend is ten times the premium. It would have been twelve times the premium had I not used dividends for the first fifteen years of the policy to reduce the premiums! You see, I was looking at the policy the way most everyone looks at life insurance -- "you want to pay as little premium as possible and get as much death benefit for that little outlay" -- therefore, use dividends to reduce the premium. After living with this limited understanding of the dynamics of dividend-paying whole life insurance for fifteen years, it finally dawned on me that I should be using the annual dividend to buy paid-up additional insurance! So, I changed the dividend election to purchase paid-up insurance (at no cost) from that year on. Someone should have told me to do that at the very beginning!

To understand this next point we need to take a little "side trip" to better understand the economic world. I have been passionately studying economics for almost 51 years and I know that the dollar has lost 80% of its purchasing power in the last 50 years. That fact can be substantiated by any number of economists. The Federal Reserve System has been inflating the money supply so much that it now takes $5.00 to buy what $1.00 would buy in 1959.

My own experience confirms this. In 1953 I remember buying chicken breast at the commissary at March Air Force Base, California for $1.00 per pound. Because of Mr. Greenspan -- and now, Mr. Bernanke -- inflating the money supply, chicken breast should cost $5.00 per pound. It does not! The real cost has gone down! Yet most folks think that the price has gone up because "the numbers" have increased.

While in college in 1949 I worked in a produce store, part time. Bananas cost 16 cents per pound. Because of inflation bananas should sell for 80 cents per pound now. They don't. The highest prices I've seen are 59 cents. Bananas have gone down in cost.

We have three children. The first two were born while I was in the military. Our youngest is our only "civilian-born baby." The room rent at the hospital in Smithfield, NC in 1960 was $16.00 per day. Incidentally, the Holiday Inn Motel in that area at that same time frame was $16.00 per day!!! I travel a great deal on speaking engagements all over the United States and quite often will stay at Hampton Inns. As an average, the room rent, nationwide, is about $80.00 per night. (Plus, you get breakfast!). So, the only difference between 1960 and now is the inflation factor of "5." It takes $5.00 now to do what $1.00 did back then.

As further aside, let's talk about the current rates for hospital room rent. What happened to the "5 – factor?" It disappeared on account of two things -- the introduction of "third party payors" (insurance companies) and government programs. A third party payor removes the normal abrasion of the market place. In essence, the provider of service says, "You don't need to worry yourself about the cost -- the insurance company is going to pay it!" They neglect to explain what that does to premium costs. Now, multiply this by ten for the introduction of a government program and you get what's going on in America now.

As a result, the costs of health, education and welfare have all gone up significantly above the "5 – factor" while the actual cost of everything else has gone down. In 1964 the average cost of a year in college at a state school was $2,000.00 per year. Now, it is ten times as much.

Finally, I rode American Airlines a great deal in 2001. The Flight Magazine in the pouch in front of your seat was celebrating its 30th anniversary. There were several articles about "then, and now." Costs of many items were cited -- and they all met the "5-factor" perfectly.

Assuming that you are convinced of the validity of the "5 - factor" I can now tell you that the death benefit of this policy in 1959 was $20,000. The death benefit now is $100,000. It has kept up with inflation perfectly! Have you ever heard anyone say that life insurance was a hedge against inflation? Not on your life! To the contrary, they say it is a victim of inflation. Yet, these folks don't know very much about how this type of life insurance actually works – but they are "sharing their ignorance" with those who will listen. Coupled with the fact that I have been putting in dollars each year that have been depreciating in value. The value of the dollar I paid this year is only 20% of the one I paid in 1959.

When I paid the premium on this policy in 2005 I asked State Farm Life to change the dividend election for the year 2006 and all following years -- send the annual dividend check to me. (I don't need the income -- but I wanted to be able to show the dividend check to those non-believers). The check for 2006 was $3,877.70 and for 2007 it was $3,927.28. I fully expect it to go up, slightly, again next year.

I will get this kind of income for the rest of my life. Add all the premiums I have paid down through the years and you will see that I will recover everything I've paid in less than 4 years. I will have no cost basis in the policy at that point. Yet, the income will continue as long as I live -- and the death benefit will not diminish!!!!

I think you will admit that this is impressive results. But, the very impressive factor is not seen! In the late 1960's I was a pilot in the Alabama Army National Guard. One of my fellow pilots got "between the rock and a hard place" financially and needed to raise some money. He knew I was educated as a Forester and might be interested in buying that 100 acres of timberland he owned in northwest Alabama. He said, "I'll sell it to you for $50.00 per acre -- and I will finance it for you for ten years." I knew that was a good deal and took it and made monthly payments to him.

About 18 months later he called me again and reported, "I need to raise some cash. If you will just pay off the debt on that land now, I will discount it 25 cents on the dollar. I knew that was a good deal so I replied, "Stand real still -- I'll be right back." I went directly to the regional State Farm office and said, "Get me a $3,500 policy loan quickly before this young man changes his mind!" In less than an hour I had a check in his hand.

Bottom line, I had less that $38.00 per acre invested in that land. In 1985 I sold that land for $500.00 per acre – and I financed it for 10 years at 15% interest! With that income I bought more life insurance. All those premiums become cost basis in the new policy and I will get it back, tax free, when I decide to draw "passive income" (dividends) from it.

During the following years I made two more investments from policy loans on this policy. They results were not quite this good -- but, they were highly profitable. These facts are not seen as you look at the graph. You have to add these results to what is shown on the graph to understand the total power of dividend-paying whole life insurance.

Out in the big, wide world there are those who say, "But, those dividends are not guaranteed." Let's look at the facts. Once a year the Directors of the insurance company meet and declare what the dividend scale for the next year will be. This is allocated to all the policies on an equitable basis. It is guaranteed for the next year! It cannot go backward like your Enron Stock, your Worldcom Stock, your Global Crossings Stock, etc. The only dividends that are not guaranteed are those in the future beyond that point.

Now, go back and study the graph. Note the dividend in 1990. There was a precipitous drop in interest rates that year, but notice that the dividend the following year went up! In 1992 it went up again. It leveled off in 1993, and went down slightly in 1994 and then continued its upward trend. There were minor "corrections" in '99, '04 and '06, but the upward trend is evident.

I remind you that this policy has been in force since 1959. Since that time there have been all sorts of changes in interest rates. When I moved to Birmingham, AL in 1963, our mortgage rate on the house was 5 ¼% interest. If I wanted a new mortgage 20 years latter, the rate would have been 16%! Now, we have been experiencing low interest rates for the past few years. Yet, with all these aberrations, this policy has been consistently improving. Question – do you think interest rates will remain this low? I think not. They are already beginning to increase significantly. Reality is settling in! The "fool's paradise" is coming to an end!

Shortly before I bought this policy from my brother, I was called upon by a representative of a financial services agent (who shall remain nameless) who showed me a "mountain wave" graph of how good I would do in the stock market if I had $10,000 to put into it. "Your financial future will be secure. But, you don't have $10,000. You are going to have to accumulate it. We have this accumulation plan in which you can put $50.00 per month ($600 per year) and, in time, it will become $10,000. At that time we can put it into one of our mutual funds and you will be set for life!" I indulged. The agent made me initial the point at which my outlay would equal its value. It was seven years!

So, I was paying $600.00 per year in that plan and $388.40 to the SF policy. That's $1,000 per year -- 10% of my income at the time. Remember, it was my next older brother that sold me the SF policy. He knew about the $600.00 that I was paying into the other plan. What if brother had suggested that I pay the entire $1,000.00 into the SF policy? Then, the dividend check that I am now receiving would be over $10,000.00 per year! And, I would have had more money in the interim years to take advantage of investments that would have come along.

Furthermore, brother knew that I was running heavy equipment (Caterpillar tractors) to clear land for tree growing purposes in my business. I was paying a finance company $1,500.00 per month on heavy equipment. That's $18,000.00 per year! Where did the finance company get the money to lend me? From insurance companies!! Finance companies buy "blocks" of money from insurance companies, fragment those blocks and sell the money to consumers.

Brother should have taught me to pay $18,000.00 per year in life insurance premiums to accumulate a pool of capital from which I could finance all my equipment. There was no way I could do that immediately since my income was $10,000.00 per year. But, he could have sold me, say 4 times the amount that he did, and in a few years I could have been rid of one of those tractor payments forever. I could have been making what the finance company was making off me, tax tree, for the balance of my life. Once a person gets past the point of financing one item in his scenario, he can accelerate the process very quickly. In about 15 years, a business person can be totally self-sufficient.

Question: Why didn't brother teach me these things? Answer: He didn't know. Question: Why didn't he know? Answer: State Farm Life didn't teach him!

Well, why didn't they teach him? All the qualities of dividend-paying whole life insurance that Infinite Banking Concepts teaches have been there for 200 years!

Brother died on the first day of January 1981 at age 52. I'm 76 at this point in time, so, in the not too distant future I will be reunited with him in the hereafter. When we get over the pleasantries of meeting again, then I'm going to have a serious discussion about this matter. "Why didn't you sell me much more than you did?

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BOOK SALE [Order securely on-line]

<u>Unmasking the Sacred Lies</u> By Paul A. Cleveland

Professor Cleveland wrote this book because he was fed up with students arriving to his classes with one myth after another burrowed into their brains. His goal was to set the record straight in every area of economic policy: transportation, money, labor, industry, agriculture, and on and on. The result is an outstanding primer for high school students, young college students, or anyone.

It covers the whole of U.S. economic history in a way that sticks to facts and tells a story that hardly anyone hears. This book has needed to be written for many decades. It is a great thing that we finally have it. It is highly recommended for anyone in a position to provide a solid education in economic history. Absolutely eye opening.

184 pages, Paperback, 2008.

Normally $25.00 per book + $5.00 shipping and handling.

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<u>Life Insurance - Will it Pay When I Die?</u> By Thomas W. Young

This book is intended to help you, the insurance buying public, move through the maze of protecting your family with the proper life insurance.

Money is one of the most important things in life. In our society, we have to work to earn money to survive. Surveys show time and time again that most people hold wealth as one of the top three priorities in life. As people who must use money to survive, our finances are very precious to us. So, if this is true, why do so many people base the majority of their financial decisions on rumor, hearsay and opinion?

You might believe you have been given sound financial advice. But in all likelihood, you have made the majority of your decisions based on advertisements, friends and family. Sometimes this works out well, but if the people you receive financial advice from are not fully informed about what they have invested in (which is often the case), you are almost completely blind as to what is happening with your money!

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Mark your calendar for the upcoming Semi-Annual Infinite Banking Concepts Think Tank Symposium - **16-18 February, 2010**. Look for the agenda and times next month.