The Ethical Treatment of Somebody Else's Money

Straight From The Horses' Mouth

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In This Issue

MoneyCulture©

MoneyCulture© for Lawyers launched.

We introduced MoneyCulture© for Lawyers to the American Bar Association last week at their annual meeting in Manhattan. It is the first target-specific packaging of our core MoneyCulture principles, articles and courses. We are presenting it to several state Bar Associations this year. Upcoming will be MoneyCulture© for:

- Educators
- Accountants
- Students
- Lawyers
- *Doctors*
- *Professionals*
- *Mom and pop*
- *Everyone*

I hope you support our efforts at improving financial literacy.

SEC on Bitcoin

As BITCOIN crosses $4000, comes an announcement from the SEC that they will regulate Bitcoin and friends.

One of the "advantages" of cryptocurrencies touted by their supporters is their independence from any government or regulation. Maybe so. Until now. Last week the SEC announced that they will begin regulating the sale of Bitcoin and other crypts like DAO coins. "They are subject to Federal Securities laws".

"Offers and sales of digital assets by 'virtual' organizations are subject to the requirements of the federal securities laws" said SEC Chairman Jay Clayton. The regulations apply to entities that use distributed ledger or blockchain technology, as in, "Initial Coin Offerings" or "Token Sales." Unregistered offerings will be liable for violation of federal securities laws.

The purpose, says the SEC, is to "ensure that investors are sold investments that include all the proper disclosures and are subject to regulatory scrutiny for investors' protection."

Note that the SEC is under high budget scrutiny, so its reach needs to be expanded so as to preserve its budget. Also, the budget is supported by fines and penalties for violations, which the SEC has found 226 times in the first 6 months this year (highest 6 months ever).

Still, "Investors need the essential facts behind any investment opportunity so they can make fully informed decisions, and today's Report confirms that sponsors of offerings conducted through the use of distributed ledger or blockchain technology must comply with the securities laws," said William Hinman, Director of the Division of Corporation Finance." *Hmm….*
One of our writers, Ian says, "BC is a completion strategy the way lottery tickets and Bingo are a completion strategy."

Motley Fool: Credibility Shot

It's a worthless shill for their proprietor stuff. Guess who's making money off this?
So once again, virtually every week, under the guise of an objective investor tip, the Fool touts a writer's "exclusive" unveil to said Fool on a hot tip that will pay off big. His shill reads like a classic "Pump and dump": Read:
"…*sometimes*, on rare occasions, he believes in a company so much, he pounds the table for investors to act fast and grab shares."
" boy, did it pay to listen."
"…into nearly $1 million today."
"the early bird gets the worm"
"That's exactly why …recommending investors buy shares."
"But please note: as of right now, you could miss out because you may not be eligible to access…"
"…only releases these recommendations to members of his service, *Motley Fool…." What a crock.*

ABLE accounts

The SEC just put out an Investor Bulletin (—Good, as opposed to an Investor Alert—BAD) On ABLE accounts.
What's an ABLE? "An Achieving a Better Life Experience (ABLE) account provides a tax-advantaged method to save for disability-related expenses. Contributions are not tax deductible for federal income tax purposes, but your investments can grow tax free and remain so when withdrawn and used for disability-related expenses." They're essentially like 529 Plans with a twist: the account holder–must have incurred a qualifying blindness or disability before becoming 26 years old. The Grantor can contribute up to the gift tax exclusion, which is currently $14,000 annually.OK: These sound like a good thing for parents of the qualifying person.

<u>Chicago Stock Exchange to be sold to Chinese?</u>
Maybe by the time you read this, we'll now the answer. The SEC has had the proposal since 2016, and…not yet.
The 135-year-old exchange would be sold for an estimated $30 million to a group led by Chongqing Casin Enterprise Group, a China-based company involved in a wide variety of businesses. There's a lot of opposition, including:
11 House members led by Rep. Robert Pittenger, R-N.C., who urged the SEC in July to reject the proposed acquisition, calling it "a threat to the United States' financial security and Americans' faith in our national financial market infrastructure."
Who wins out? Better yet, who gets the $30 Million?

DANTE'S CORNER

BEWARE: OIL AND GAS FRAUDS:

Boiler room:
A massive phone hype effort by Kentucky-Tennessee 50 Wells raised approximately $2.4 million from 41 investors nationwide. Carol J. Wayland and her son, John C. Mueller set up a boiler room under the fictitious name of "Sahara Wealth Advisors" where they employed numerous salespeople, including Mitchell B. Dow, Barry Liss, and Steve G. Blasko, all of whom allegedly had prior experience working in boiler rooms. They were supposed to develop and operate oil wells, but that never happened. It was a Ponzi scheme. Wayland and Mueller took the money personally and used some new money to payout old money. Classic.

Understated expenses at the sale point
Petroforce Energy LLC and its founder William Veasey paid about $300,000 because they and their salesman misled investors about costs and prospects in the offering

Misappropriating investor funds
It cost $10 million in fines for Ascenergy LLC, Joseph Gabaldon, and Alanah Energy, LLC because they deceived investors on a crowdfunding site. That's twice what they raised.

And psychic readings
A North Dakota oil and gas company Citadel Energy and its founder, Joey Stanton Dodson, of Porter Ranch, California, misled everybody about everything: his compensation, the intended use, ownership of certain assets or income streams, prior litigation against himself. Dodson commingled funds, misappropriated at least $1.7 million from investors for his personal benefit, including for large cash payments to himself and his family members, Ponzi-like payments to prior investors in unrelated projects, casino vacations, lease payments for a BMW automobile, and psychic readings and spiritual products.

More boiler room
David R. Greenlee and David A. Stewart Jr. orchestrated a $15 million scheme by recruiting and controlling a network of salesmen who offered and sold investors a stake in various companies purportedly using enhanced oil recovery techniques like fracking to extract and sell oil from wells in Kansas, Oklahoma, and Texas. In aggressive sales techniques, investors were promised profits of 15 to 55 percent per year for decades. They took more than ⅔ of the money. Investors got nothing.

Ponzi and a spa
Cash Capital, LLC, America's Strategic Ore Properties, LLC, and Robert W. Wilson all lied to investors and took approximately $2 million from more than 70 non-accredited investors located primarily in Arizona and California. Cash and Co. said their operation (that didn't operate) was worth $30 Billion. They allegedly spent significant portions of investor funds on personal expenses, including the rent for a residence (as well as for a separate office), a membership to a massage spa, medical and dental expenses, frequent restaurant expenses, and payments to participants of previous investment offerings.

And, a Mexican Silver mine
Hidalgo Mining Corp. and its principals John W. Boyer and Joshua F. McAlees raised approximately $10.35 million from about 85 investors nationwide, purportedly to fund mining operations for a silver mine located near Mexico City, Mexico. They couldn't pay their investors (probably not their lawyers, either).

The point of these stories is simple: If it seems to be too good to be true, it probably is. Always, always, ALWAYS do a thorough investigation before you give anybody any money on for an "investment", don't speculate with more than you can afford to lose and *caveat emptor.*

Going…Going…Gone.
The DOL Fiduciary Rule, Financial firms have just saved $4.7 Billion. The DOL announced that there will be ANOTHER 18 month delay to mid 2020. That gives them plenty of time to water it down to a trickle and lets them lay the heat on the SEC to take the reins. As you recall, the SEC has been relentless in promoting (No, make that HIDING FROM) anything about fiduciary. Major changes including the scrap pile are where the smart bets are. At the same time, there's still legislation and cases to kill it. The 5th Circuit is ready to boot the rule based on the Chamber of Commerce suit. They shouldn't waste the money, the DOL will do that.

Dancing in the streets are variable annuity providers. Crying in their beer are all the compliance consultants.

RETIREMENTCULTURE©

Wrong focus:
Most of those investing or planning for retirement are focusing on the wrong things. What you need for retirement is stable future income. What a typical investment approach focuses on is investment value and asset volatility. There is some analyst movement toward defining risk from an income perspective.
There's no real product neutral education out there that would help. We have to deal with an industry that wants our money. SO, how do we know how much we need to generate income. I don't think software algorithms are enough.
There are a lot of financial Advisors among the readers. I ask them to come back with a credible solution without using the word "annuity"

Is the 401k a scam?
Some writer named Pamela Yellen who favors dividend paying whole life insurance recently wrote that the 401k is a scam. According to an Advisor, these are some of her arguments:

Tax deferral is a scam because future tax rates are an unknown, and if rates increase participants will pay higher taxes on larger amounts.

An employer match is a scam because it affords the employer the opportunity to contribute in lieu of paying additional compensation in salary.

Fees detract from savings and prevent participants from retirement.

Limitations and restrictions on participant access to their money is the equivalent of putting it in "prison."

Employees, on average, barely outpace inflation.

The 401(k) doesn't work because most pre-retirees still don't have enough saved.

I think Yellen could benefit from our Financial Literacy course "Scams, Shams and Flimflams". Then maybe some real research on facts about 401k plans. She should have talked about Social Security, now there's a Ponzi scheme.

TDFs
Vanguard reports that 72 percent of the 4.6 million people participating in company-sponsored 401(k) plans overseen by Vanguard invest in target date funds. It looks like the once ugly stepchild (TDFs, not Vanguard) is gaining some respectability.

Thrift Savings Plan: don't convert to an annuity.
Finally, according to the *NY Times*, Federal workers have a well-regarded retirement plan called the Thrift Savings Plan. The overall costs are about as low as employer-based retirement savings plans get. The Securities and Exchange Commission recently accused four brokers in Georgia and a firm they represented of fraud after they earned hefty commissions by allegedly persuadng about 200 people to move money out of the plans and put the funds in expensive annuities. Some of the brokers' client reports, according to the complaint, never even mentioned that they were putting people in variable annuities. Barbara Roper, director of investor protection at the Consumer Federation of America, said that the move to expensive annuities would have violated a "best-interest" standard, and suggested the brokers might not have even bothered trying to approach the Thrift Savings Plan participants with such offerings if a fiduciary rule standard had been in effect.

Until next time: No telling what comes up in the week ahead.