How to Use the Financial System—NOT be Used BY Them

By Paul Renfroe

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The financial system wants to hold on to your money because it is their raw material. Since their offerings are better than a tin can in the back yard, we do use their products, but only according to certain criteria.

First, the financial institution should absorb all the risk. That's what they are good at. It doesn't make any sense for you or me to absorb the risk of loss when they have hundreds of analysts skillful and experienced to measure it.

In fact, their primary sale goal is to sell their risk to the average person. That is why they promote such misleading "rules of thumb" such as "high risk, high reward, but low risk, low reward."

Second, we must have control of the money. A financial institution often sneaks rules into their disclosures that permit them to hold on to your money even when you ask for it back. This is especially true of risk-based investment accounts.

A subset within that category are employer-sponsored plans such as 401ks, 403bs, etc. Financial institutions providing such qualified plans provide employers with prototype plan documents. These are pre-approved by the IRS and many employers use without alteration because the financial institution vouches for their compliance with regulations.

However, these prototype documents are obviously written in favor of the financial institution. The second interest is the employer staying out of hot water. You and your money are a distant last.

As a sign of this, consider the available options in your 401k. For most people it is only mutual funds or a low-earning fixed account. This is so limiting for people that the federal government finally took action on December 20, 2019 to permit 401ks and other such plans to offer fixed indexed annuities where a participant can earn according to market ups but be completely unaffected by year-over-year market declines.

Third, we must have flexibility. This is closely related to control. Life brings change that we cannot predict, whether through accident, injury, work, family and even weather. The ability to change your plan is a critical component of retirement planning.

We should measure financial products by the flexibility they offer.

Fourth, they should not bury us under mounds of mail, layers of complexity, and persistent questions and decisions.

Retirement years are often accompanied by a waning interest in managing money and assets. In addition to the motivation factor, there is a mental change that limits one's ability to absorb complexity. There's a reason we have a saying about old dogs and new tricks.

We live in an advancing age in which new technology replaces previous in ever-shorter cycles. Financial institutions keep up with those changes and when they impose their preferences on you it can be intimidating, creating another barrier between you and the direct control of your money.

Financial institutions that offer you their risk have to disclose reams and reams of prospectuses, statements, activity and decision requests. Every time they are covering their own rear, but you can be overwhelmed in the process, particularly if an event of life is occurring for you or a family member. And the fear that can arise of making a wrong decision can induce either a paralysis in which no decision is made, or a subservient dependence on the financial "advisor" trained by the financial system. Truly it is the wolf watching the chicken coop.

Finally remember that the more is disclosed, the less is disclosed. You don't read that stuff! Don't even pretend. So it is critical to work with a person like Paul Renfroe (me) who is trusted by many and has risked himself to defend your best interests against the one-sided capitalism encouraged by financial companies.

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