



Understanding What Your 401(k) May Be Costing You (Fees, Taxes, and Missed Opportunities) [Ep. 13]

Transcript

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So the first thing that comes to mind for me strategy-wise is what's called the rule of 55. That's why I think a plan is so important because you can see realistically how much money do I need? You highlighted one of the major challenges of retiring early because the fact of the matter is the 401k is the first account across the board by and large that hits seven figures.

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Everybody welcome to another episode of *GDS Unplugged*. Today we have a special guest, Tim Allin.(...) Welcome Tim. Excited to be here. Long time listener.

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So Tim,(...) you know you've been with us for many years now. Honestly, I've never seen somebody come in the industry get their CFP as quickly as you and just kind of progress up the ladder as quick as you, you have become one of our top advisers.(...) For those that aren't familiar with your with your background, do you mind sharing a little bit about your background because it's kind of interesting. I would love to. I am a native Texan. I went off to Utah for

school, actually similar to your story. Tennis scholarship took me out of state over to Utah.(...) After that, I went over to China and part of that was to improve my language skills. I was studying Mandarin at the time. Didn't know I would meet my wife there and spend four years over there, but we came back to the States in about 2013, which is as fate would have it when I met you on a tennis court. So we were friends for a long time before I actually made the switch over to GDS.

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In my previous career, I worked for one of the largest windows blinds and shutters manufacturers in the world.(...) It was an awesome career path. Probably put me in the position I am today as far as my financial skillset and my planning strategies. But the path there was not client facing, which is something that I was more interested in being a part of, doing personal financial planning and just having more of an impact on people's lives. Not that people don't need window coverings, but I think what I'm doing now is much more fulfilling. Sure. And that background has probably helped you the fact that you were in the business world with a business.(...) Now that you are our lead adviser when it comes to working with business owners on exit strategies and whatnot, which we're going to dive into today, I imagine that kind of helps to some extent. Absolutely. There was a lot of exposure to different elements of that side of the business. And now, again, business owners come from all walks of life. So I would say in the world of manufacturing operations, I think my skill set from work history has helped a lot with that. Well, if you don't mind, can you give us something in Mandarin, a welcome sentence to all of our guests?

(Speaks Mandarin)

What did we just say? I said, welcome to our podcast. We're the greatest financial advisers on the planet.(...) I like it. We might have to put a disclosure at the end. I don't know if we're allowed to say that, but I appreciate it. Sure. We'll do some subtitles too. So today I'm excited to talk about the nuances and complexities in 401(k)s. They're a little bit different and they're always evolving, not just the maximum dollar amount, but how they work, tricks to maximize your earnings and whatnot.(...) What's something that most people, you'd say, whether you're meeting with a business owner or an individual in the corporate world that's just saving in their 401(k) that jumps out at you that maybe they're not aware of? Right off the bat, most people have no idea what they're paying to be in a 401(k). And one of the clearest examples I have of that was actually a gentleman we met earlier this summer and we were sitting down with him in our initial discovery meeting and he was convinced that he was paying nothing to be in his 401(k) and he was trying to convince us of that as well.(...) And fortunately, he was kind enough to go through our process and let us really dive into the details, call up his plan provider, go through statements, and actually uncover not only was he paying fees in this, but he was paying more than he would have by hiring an adviser. So we're talking investment fees, just some expense ratios within his investments, some of the most expensive ones available. On top of that, administrative fees, some other service fees. So all in, that fee could have gone towards a financial adviser, which would quite frankly have offered a lot more services as far as the

financial planning piece of it, which he had no financial plan. There were no tax strategies being discussed. There's no investment advice. And on top of that, he was a year away from needing his first RMD, which he had no idea about.

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So what I hear you saying is that there's nothing wrong with paying a fee, but if you're paying a fee, you want to have something in return. You want to have a financial plan, tax strategies, (...) some type of roadmap. (...) So if you're do it yourself out there and you're like, man, I don't want to pay anything. I want to pay you a few basis points and be an S&P 500. That's fine. We're not saying you can't do that. We're just saying if you're in one of those funds, whether it's a target date fund, which I know we're going to tap into a little bit later, or some type of fund that you're paying north of 1%, and you're not getting much in return, that's what you want to be careful with, right? Exactly right. Okay. Well, talk to me about RMDs. What are RMDs? So RMD is an acronym for required minimum distributions. And this is the deadline the government puts on any pre-tax dollars that you have. So up to this point in the 401(k), this gentleman's example, he hadn't paid any taxes. Everything went in, tax deferred, and he got the deduction up front. So when he hits age 73, in his case, born after 1960, by the way, that's age 75. But for this gentleman, it was age 73. (...) That's when the government comes knocking and says, in a given year, you need to take X amount, which is typically in the first year, about 4%.

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Of that 401(k) balance out, whether you need the funds or not, you need to withdraw those funds and pay the income taxes on them. So after a certain age, you have to take a percentage of your qualified monies out? Yes, sir. And what happens if you miss that? The penalties are steep. So let's say this gentleman went on his merry way and didn't know about RMDs. And quite frankly, there are letters or emails that might go out. But again, if they've got a bad email address on file or a bad mailing address, or he just doesn't open his mail, and he misses that RMD, what ends up happening is you pay a 25% penalty on the amount that should have been withdrawn. That's steep. And I'll tell you, that even dropped in recent years. It used to be 50%. The IRS also gives a little bit of grace, not to waive the penalty, but in a two-year correction window, if you end up taking the RMD, filing certain tax forms, you can actually reduce that penalty from 25% down to 10%. But the best situation is you don't have to worry about it in the first place. I would say as financial advisers, it's part of our job description to stay on top of that with clients, remind them about RMDs at the beginning of the year. So if they are on vacation or they have something going on, it's not December 27. And we're having to drive to their house, which you kind of half jokingly told that gentleman, I would be the one driving to his house to remind him before I ever let him miss an RMD, which that might have sealed the deal. I don't think you were joking. (...) I know on 401(k)s that clients have, we stay on top of it. But if somebody's doing this themselves and they have six 401(k)s out there, how do they calculate that? How does that work? You following me? If I have six 401(k)s, I'm my own financial adviser, I'm a do-it-yourselfer, and I'm not relying on somebody like us reminding them and having to guard rails, what do they need to do on those six 401(k)s when they are RMD age? (...) I'm glad you

asked that question. Let me actually dive in and make this a little bit more complicated. Let's throw some traditional IRAs into the mix as well. So six old 401(k)s, two traditional IRAs, and I'll go over the IRAs first. The IRS views those IRA balances in total. So the RMD that you need to take, let's say for IRA 1, the RMD is \$10,000. For IRA 2, the RMD is \$20,000. Well, in total, that \$30,000 RMD for a given year, you can take that out of either or, or a combination of both. The IRS doesn't care. As long as that amount is withdrawn, you're paying the taxes on it. The 401(k) though, although those are calculated separately, each one of those six 401(k)s that someone has calculated separately, that RMD has to be taken from each of those six 401(k)s. You don't get to add them all up and take them from one, which on an annual basis, that's an administrative headache to have to go through, especially if you're doing it yourself, to go through whether that's a phone call, go through online, figure out what positions you're going to liquidate to get those funds.(...) So we've seen the situation many times in the past as far as that RMD situation, just getting more and more complex for someone that is doing it themselves without the backing of a supervisor. Yeah. And I mean, we do rollovers for clients, several clients every week have some type of form of rollover. And I can imagine that being super cumbersome because sometimes I'm not going to name these firms, but you can be on hold for 60 minutes, 70, 80 minutes, an hour and a half to do a rollover or to do a distribution. I can't imagine, I mean, six 401(k)s, excuse me, every year having to calculate based on the value of December 31st of the previous year, and then to call, do the distribution. That just sounds like a nightmare. Not a fun thing.(...) In terms of the investments in 401(k)s, I want to talk for a second about target date funds. That's really become popular over the last decade, decade and a half.

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Can you explain to us how target date funds work and pros and cons? Sure. I actually saw a study recently, I think it was CNBC, that said by 2027, two thirds of all contributions going into 401(k)s across the US are going to end up in target date funds. So it's a lot bigger percentage than one might think. But what a target date fund is, is a mutual fund that behind the scenes is actively managed to get more conservative as you approach the target retirement date. So as an example, if it's a 2050 retirement date target fund, what ends up happening is each year that ticks off the clock or intermittently is a scheduled rebalance. We're taking stocks off the table or equities, rebalancing that into bonds or fixed income to make things more conservative.

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So every year you're closer to retirement, it's making the account more conservative because it assumes you're closer to retirement. Is that right? Yes. So the downside of that, I guess, would be theoretically, the market in one year could be awful.(...) And what you might want to be doing, again, there's not one rule, one size fits all. But if the market's doing terrible, you might want to buy more stocks, sell bonds, but what a target date fund theoretically is going to do is the opposite. It's going to be selling stocks at the low buying bonds because it's like you're one year closer to retirement. So it's definitely problematic and can affect performance for sure. That would be one of the major drawbacks. I can list a few more for you. Give me them. One of them being they're pretty expensive. I'll say relatively expensive within a 401(k). Earlier we talked

about investment fees that you can see within a 401(k). The expense ratios on target date funds, because they are mutual funds, on the low end could be half a percent. On the high end could be one and a half percent or more. So that can be significant and compound that over time.(...) Yes, you're getting more conservative. Yes,

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I guess, to your point, theoretically, as you approach retirement, you're taking some chips off the table, but there's also a lack of customization. Again, that's how they're designed. But I think a good example would be if we were both aiming to retire in 2050,

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we put all of our money into a target date retirement fund, but you're naturally a very aggressive investor, I'm not. I'm more on the conservative side. Well, if we're in the same target date fund because we're targeting the same retirement date, we're invested the same, even though one of us should be more aggressive. The allocation is exactly identical. Which, again, the problem goes back to what are your personal financial goals in retirement? What are mine? What's my spend going to be? What is my tolerance for risk? In a down year, you might be able to stomach a lot more volatility than me, but in a target date fund, everyone's on the same playing field. It's a cookie cutter solution. Makes sense.(...) I'm not sure if lately, it's probably been five plus years, but fire has been a big thing.(...) What does an acronym stand for?

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Tell us a little bit about that. The fire movement. It's hard to open YouTube or TikTok without being flooded with videos about people aggressively saving in their 20s and 30s, having a bunch of side hustles.(...) It's not a bad strategy, but the idea behind it is, let's save as much as we can. Let's stock away in 401(k)s, other retirement accounts, maybe brokerage accounts. But with the idea that you don't have to work until 62. I throw that number out there. That's the average age of retirement right now in the US. People that are looking to hang it up and not work for the man by the time they're in their 40s or 50s, they're looking to just save more aggressively, make more money in the early years, and then hopefully hang it up and just live maybe a simple lifestyle depending on what they're able to put away. In essence, it's a movement that lets Uber save in order to retire less. Maybe frugally, maybe not, depends on how much they saved and what their lifestyle is. Yes, sir. Yes, sir. I want to talk about strategies because when you have money that's qualified, 401(k)s, IRAs, which most people try to squirrel away their retirement money into them, there's some restrictions when it comes to pulling money out.(...) With the fire movement we talked about and just maybe somebody's not doing the fire thing where they're Uber saving, but nevertheless, they're retiring young or they need access to their funds before 59 and a half,(...) let's go over some strategies of how people can do that with minimal possible penalties.(...) I think you highlighted one of the major challenges of retiring early because the fact of the matter is the 401(k) is the first account across the board, by and large, that hits seven figures. Most of the time when people retire, that's the account they're

looking to be able to draw from. So to your point, if they haven't reached that magic age of 59 and a half, well, what funds they have to live on, if that's where they've been aggressively saving. Let's walk through that. I'm 56 years old, I have \$1 million, that's all the assets I have other than my home, and it's in a 401(k). I'm 56, what are my choices? It's in a 401(k) currently, I got an adviser knocking on my door telling me I should do a rollover and give him the money. Sure. The first thing that comes to mind for me strategy-wise is what's called the rule of 55.(...) And this is an IRS provision that actually allows you to draw on the funds from your 401(k)

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from the age of 55 to 59 and a half. Now, you're still going to pay ordinary income taxes on whatever withdrawn from that account, but you avoid the 10% penalty. So they give you some wiggle room as far as being able to retire early and still draw down those funds.(...) Okay, so what I hear you say(...) is if I'm 56 years old, have a million bucks in a 401(k) and I need money,(...) that provision only applies to the 401(k), not an IRA, right? So I would not want to roll over that 401(k) into an IRA if I needed the money in between ages 55 and 59 and a half. Because if I move it to an IRA and I pull it out, then I'm paying the same taxes plus a 10% penalty, is that right? Exactly right. And I'll also caveat this with this only applies to the 401(k) from the employer that you just retired from. So in the example of having six old 401(k)s, you don't get to pick and choose which one you're drawing that from. The penalty-free withdrawals only apply to that most recent one. So if over the years you've been consolidating 401(k)s, meaning rolling them over to your newest employer, and you have one 401(k), to your point, just a million bucks in a single one, that's going to be the source of funds.(...) Now, let's say you do have an adviser knocking on your door that says, "Well, why don't you hand over 600(k)?" Let's get it to an IRA that we can actively manage. No more target-date funds. What ends up happening is you can actually roll over a portion. So it's not a full rollover. You roll over a portion of the fund. So let's say in your example, from 56 to 59 and a half, you need 100(k) a year. We'll call it 400(k). Take the 600(k) of that million, roll it over to the IRA, leave the 400(k) that you can continue to draw down from.

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I like that. I'm going to repeat what I think I heard you say. You have a million bucks. You move(...) a portion that you don't think you need for the next few years into the IRA, where you should have greater flexibility, more investment choices, could be less fees, depending on how you're set up. You get access to an adviser. The portion that you need before the age of 59 and a half, you leave in your 401(k), that way you have access to it without paying that 10% penalty. Is that right? Yes. Spot on. When we work with clients on this strategy, it's very important to do those calculations up front. I say calculations. Really, it's financial planning.(...) Because what you don't want to have to deal with is you leave 400(k) there, you realize maybe in year two or three that you're going to need 500(k). There are ways to do what's called a reverse rollover, but again, you're getting in the weeds and you're risking some taxes and penalties on things you don't want. I think the important part of that is having that financial plan built up front. Before you make that decision that, "Okay, I'm going to roll over 500(k), 600(k), whatever that amount is,"

that you have a plan in place, so there's not going to be a shortfall. Okay. A lot of people aren't familiar with a lot of these strategies. Another strategy that comes to mind is a 72(t). Talk to us about what a 72(t) is and how it works. So, Rule 72(t) is another option for those retiring prior to 59.5 that are trying to avoid penalties but still facing the taxes on those withdrawals.(...) 72(t) broadens that horizon. So, when we talk about Rule of 55,(...) same concept, but that applies to 401(k)s and 403(b)s. Rule 72(t) opens up the door to other retirement accounts, 457s, even TSPs, for government workers.(...) And what this consists of is, it doesn't matter what age you're retired. Let's say it is someone in their 40s and they need to bridge that gap. Well, it doesn't have to be retired. It just means you need access to the money, right? I mean, you theoretically could still be working, but you don't have enough to live on for whatever reason. Correct. And that's actually a good example for what we can dive into as some of the pitfalls of this strategy. But you retire in your mid-40s.(...) Or you need access to funds in mid-40s. Exactly right. You need access starting in your mid-40s. I don't want to pigeonhole somebody who thinks they can't go back to work or make more money. Fair enough. Fair enough. What we are pigeonholing them on, though, is the calculation that goes into that. And there's a complex set of rules the IRS puts out there. There's three different methodologies for calculating what these periodic payments are going to be or these periodic withdrawals from the account. But once you establish that payment schedule and the amount that you're drawing on at least an annual basis, there's no turning it off. You either have to go all the way to 59 and a half or for five years, whichever is longer. So in the example we've been talking about, you retire at 45. Those payments have to be coming out on those regular intervals until you reach age 59 and a half. Now on the flip side of it, let's say you are just trying to bridge a two-year gap and you decide to implement this rule 72(t) at age 57. Well, the downside now is that you can't just turn it off at 59 and a half and have free access to the funds. Instead, what's going to happen is you have to ride it out for five years. So five years is going to be until age 62. You continue drawing that down. Now it's not always a favorable situation. To your point earlier, what if something comes along, you are still working, you get a promotion, you don't need the funds anymore, you can't turn it off. So those payments continue to go on until the five-year period or you hit 59 and a half again, the longer of those periods. Okay. So I'm going to give another example and kind of summarize what I'm hearing. So let's say you're 51 years old, you have \$2 million in an IRA,

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you need access to funds, whether it is retirement or just you're in between jobs, but you don't have enough liquid other assets. I have \$2 million, I'm 51 years old. I could start the 72(t),(...) which you have to do a formula, let's say it's 5%. So now I get on \$2 million, I think I said 5% on \$2 million, that's 100K I get. Every year we recalculate it based on the balance at the end of the year.(...) And I have to continue to receive those annual payments until five years or until I'm 59 and a half, whichever is longer. So I could see the downside of that is let's say I'm 51,(...) financially, I can't get another job.(...) So for three years, that 50 grand comes in to help me with my liquidity needs significantly, but at 55, I'm back employed, making good money, but I don't necessarily need it. I have to continue to take those payments out. Again, if you cancel it, you pay up 10% penalty retroactively since you began this process. So you don't want to willy-nilly do a 72(t), but there could be situations, like you said, I've personally had experience where

clients, they have a good net worth, but the problem is it's all in qualified accounts, retirement accounts, and they need to tap into it. And I've had others who have retired before 59 and a half.(...) And like anybody else, they'd rather not pay that 10% penalty.

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Spot on. And this is one thing that I highly recommend not trying to take on on your own, even if it was yourself, without someone really diving in on the financial plan, probably getting the CPA involved just to make sure you're following the rules. You could do everything perfectly from age 51 in your example, up to 59. And the very last payment, you draw down the wrong amount or the timings off, to your point, retroactive penalties, plus interest over those eight or nine years. So it's a massive error to break the rules. And you just reminded me of something important too, is let's say you had two, three million bucks in an IRA, and you only needed a smaller portion of it, maybe 2% of the overall, you could split the IRAs up, and you could also just do a 72T on one portion of it. You don't have to do it on all. So going back to what made me think about that, you said planning. That's why I think of planning so important, because you can see realistically how much money do I need?(...) You don't want to turn a spigot on a 72T at 48 years old without crunching the numbers, because you might be 52, 53, and realize, man, I didn't need that cash flow until I'm 59 and a half. I'm back to working, or I have other sources of income now.(...) You're locked in. And taxes go through the roof. Yeah, because you pay income tax on it, absolutely.(...) Talk to us about Mega Back Door Roths. One of my favorite savings strategies.(...) So some employer plans, 401(k)s, offer a feature called a Mega Back Door Roth. And for those that get excited about Roth dollars, which everyone here at GDS does, this is the strategy to be socking away more money into the Roth bucket. The way it works is most people are familiar with the contribution limits or the salary deferral, as it's called, from a 401(k). So on an annual basis, if you're under 50, that number is \$23,500.(...) So if you're maxing out your 401(k), that's the number that you're thinking in your head. That's the IRS limit.(...) On top of that, there's also an employer match in most situations. So for, I'm going to say easy math, let's say that's \$16,500. And sounds like an odd number of an employer match going in. So all in, that's 40k a year, the 23,500, the 16,500, you have \$40,000 going into your 401(k), which is great. That's great saving. But on top of that, what a lot of people don't know is that the IRS has defined something known as the 415(c) limit. And that limit is \$70,000. This is being recorded in 2025. So that's the limit, occasionally adjusted for inflation.(...) So that \$70,000 limit is the maximum of all dollars from any sources that can go into a 401(k). So in our example, we've already put in \$40,000, but that's not the ceiling.(...) So the next \$30,000, what you can fill that bucket with is what's called after-tax dollars. And it's the equivalent tax-wise of instead just taking it to your bank account through your paycheck. So no tax deduction. Me, the employee, I plop in \$30k, I do not get a tax deduction. Correct.(...) Now the difference here is if you take that in your paycheck, that \$30k over the year, and it goes to your bank account or to a brokerage account, that's all taxable money at this point. So even if it's invested, you have what's called tax drag. You're paying capital gains throughout the year. Dividend tax. Exactly right. So that \$30,000, if it goes into this after-tax bucket to fill up that \$70,000 limit,(...) someday down the road when you retire or you're able to do a rollover, that \$30,000 actually rolls out into a Roth IRA, not a traditional IRA. So those after-tax dollars end up accumulating into a Roth account.

Now the stipulation on that is any growth on that is actually going to grow in pre-tax. So as the example, \$30k goes in there and you fast forward 10 years. You don't add anything to the after-tax bucket, but that \$30k has grown to \$100k. And you go to retire or \$59.5k, do the in-service rollover,(...) you're going to split those dollars up. The \$30k, the original contribution, goes into the Roth IRA. The \$70k growth to add up to that \$100,000 in that bucket now is going to go into your traditional IRA. It's still pre-tax dollars.(...) Does that make sense so far? Yeah, so hence, that's why it's a backdoor Roth, right? Because you put in the \$30k and later you get to move that into a Roth, your contribution, the gain goes in an IRA, but your part gets to go into a Roth, which is awesome. That's good. Let's take it one step further because let's make this a mega backdoor Roth. What some employer plans allow you to do is when you make those \$30,000 in contributions to the after-tax bucket, you convert it to Roth.(...) Most people are familiar with the idea of a pre-tax 401k and a Roth 401k. If you convert that \$30k to Roth when you make the contribution, which not every plan allows, once again, I'll add that caveat, the growth on that then becomes Roth dollars as well.(...) So now we're talking about that \$70k. Instead of sending that, the growth on the account to the pre-tax traditional IRA, it also goes to Roth. \$100,000 goes to Roth. So that's the key element of that is I've seen employers that allow you to do that every time that contribution is made. So the \$30,000 is made for the last six months of the year every time it's automatically converted, which is a pretty special feature. Sometimes plans allow it once per year, meaning you put \$30,000 in, you have some pre-tax growth on it, but at the end of the year, you do a one-time Roth conversion. You don't pay any taxes on the original contribution because it has already been taxed. So that's just a case of saying you want to do the Roth conversion, you do it, and then it grows in Roth dollars after that. Makes sense. I know for a lot of our clients, we have access to the research that shows if this is allowed for them at their employer. For those out there that have their own adviser, do it themselves, what's the best way to figure out if their employer allows them to do that? Just call their 401k provider and ask them? Hop on the phone. There's always a plan document that might detail that, but that could be 100 pages.(...) So again, we spend a lot of time with our clients that are currently employed to go through the details of that, because a lot of times people don't even know that that option is on the table. As an adviser, obviously it makes sense to say, "Oh, you can save an extra 30k, send it over to the brokerage account, we'll manage it." But at the end of the day-- That's not the right thing for the client. Absolutely.(...) So we take a look at all the options and make the phone calls with them, review plan documents to make sure we're optimizing their retirement.(...) As we wrap up this episode, give me the key takeaway in your mind. We went over a lot of good stuff, 72Ts, how to take money out of qualified accounts, mega backdoor Roths. Close us out before we do the last two questions of the day. What's your key takeaway from today's episode, Tim Allin?(...) The real Tim Allin. I would say at the end of the day, you need to have a plan in place before you start implementing anything that you're hearing on YouTube or from your golf buddy. It's really important to make sure that you've done the heavy lifting or someone's done that heavy lifting for you as far as building out a plan, seeing which of these strategies makes sense, diving into the weeds with your employer to make sure that you even have these options on the table. But at the end of the day, I think when we meet with people that say, "I wish I'd met you a year ago, six years ago," whatever the timeline is, it's most of the time it's a mistake was made where they just didn't have all the information. So again, whether that's Chat GPT or a financial adviser, there's got to be some research that actually

goes into this to make sure that you're implementing the plans that make the most sense for you. I completely agree. A lot of what we do, honestly, it's not that it's that complicated. I think if you explain the options to people, 98% of them are going to pick the right decision. The problem is they don't know even what the options are, right? Or somebody doesn't present them the option because they have an ulterior motive to sell them a product or to manage their money instead of suggesting a mega backdoor Roth, which they don't get paid on.(...) So I would agree with you. People are 98% of them, I feel like they're smart enough to make the right decision if they have all the information in front of them. Thank you very much, Tim. Now we're going to do our two questions from our mailbag. We actually had one emailed in and another one is from the staff.(...) So I'll start with the staff one.(...) We always kind of are intrigued and give you a hard time and everything with all those years you lived in China and now married a beautiful wife, Fei-Fei from China. So give us a story that might give us appreciation of your time over there.

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So when I'm asked to tell a story about kind of assimilating into Chinese culture, the first one that comes to mind is one of the first dates that I had with my wife was probably back in 2010.(...) One of our first dates after dinner, I told her I wanted to take her DVD shopping because it was one of my hobbies over there. I loved going to this place and shopping. Like to rent or to buy? No, this is to buy. I mean 50 cents to pick up a few DVDs.(...) So anyway, after dinner. Is it coming just like with the cover or is it a? No box, just a cover.(...) So what we did is dinner's over. We hop on my electric scooter. Best means of transportation around there. You can avoid all the traffic. And I take her to this area. There's this 20 story building called Computer City.

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And she's expecting to go in there. It's just floor after floor of anything electronics.(...) And I drive past it to a nearby neighborhood,(...) kind of go down a dark alley, park the scooter, go up a couple of flights of stairs. And I hit this doorbell that's underneath a handrail. Like hidden? Hidden, hidden.(...) We go inside and again, wall to wall. It's at someone's two bedroom apartment, but every room, including the bathroom is lined with DVDs. And I'm just like a kid in the candy store. It's my favorite thing to go DVD shopping. After a few minutes, I realized that Fei-Fei is still standing at the door. And I look over at her and she has this look like, how did you find this place? And I think it was kind of beyond me because I'd already been there a dozen times. It was like my monthly stop at that point.(...) But it was like even the locals are not going to just get picked up on the street and shown a DVD place. But that was my DVD dealer. And is it in English and it's subtitled or is it Mandarin?

(...)

Luck of the draw. A little bit of both. Sometimes you can turn off subtitles. I think it's all blue right now. But yeah, at the time DVDs. That reminds me of Ecuador where I grew up, they would sell

DVDs. But in the streets, you're going to be at a stoplight, right? And don't have all these DVDs sell probably, I think they're a dollar, but this was, (...) I don't know, maybe they're more expensive in Ecuador 15 years ago than in China. Okay, so last business we'll wrap up with is, you know, (...) we have four or five hundred clients here, a lot of business owners. And in the last 12 months, you've worked with more business owners than anybody here, helping them with liquidity events and different things, making sure everything's tied up because you really typically in a business have one bite out of the apple. You know, when people help sell a business, they love to say, hey, let's get the second bite out of the apple. My experience has been most of the time that second bite is non-existent or it's a very small bite. (...) But talk to us about what's the biggest mistake you see (...) working with business owners that you feel like they would have benefited from knowing this information maybe prior to selling the business or would be helpful to know? (...) There are two statistics that I think are pretty eye-opening, whether you're a business owner or not. The first one is that 70 to 80 percent of businesses that go on the market to be sold end up not selling. So that's statistic number one. The second one is of those business owners that end up selling their businesses, a year afterwards there's an interview process or a survey that goes out. Three out of four of those business owners that have sold businesses within the last 12 months have "profoundly regretted" selling their business. That's crazy. So you're telling me 70 percent, three-fourths of people that want to sell a business don't and then of the ones that do most regret it? (...) Yes, sir. Why? (...) There's a couple reasons behind it. So I'll say this goes back to the planning piece. This is not just regular financial planning. This is exit planning, which that encompasses a few different areas I can dive into in a second. But what I found is of those unsuccessful sales or transitions of businesses, most of the time the business owner is not gathering their what's considered a core team from the very beginning, from day one when they decide okay let's do this. And the core team think of business attorney, CPA, wealth manager,

(...)

family members sometimes if this is going to be an intergenerational transition,

(...)

or even the executive team, other partners of the business. (...) So honestly the analogy that we're big medical analogy people, you've had shoulder surgery Glen. So imagine going to see your primary care physician who's going to recommend a specialist who may or may not recommend another surgeon and the surgeon has a staff and anesthesiologists and nurses that are helping along the way and then there's physical therapy after. (...) Your shoulder surgery isn't successful without all of those professionals involved. And I think sometimes business owners just have the mindset that I've worked my whole life, someday I'm going to hang it up and there's going to be a dollar amount out there and I'm going to take it. (...) But without that proper planning, which I alluded to this earlier, there's not just the business plan, not just how am I selling this. Is it going to you know a strategic third party? Is this M&A? Is this going to be you know a private equity deal? But there's planning on the side of that exit plan. There's also the personal financial side, which again we deal with that every single day with our clients. But it's

financial and it's personal because one of the reasons for that, call it 70 to 80 percent of businesses that don't sell, one of the main reasons is actually just cold feet. It's not that they haven't done the heavy lifting business wise and built up an amazing practice or whatever they're doing. Cold feet, maybe because they're not prepared right. There's too many uncertainty, questions in their mind of how things are going to work. And they've been doing it their whole life. This is all they know right. So to hang it up, even if the dollar amount is there, you can only golf for so long every day for so many days a week before there's nothing else to do. So part of that initial plan is making sure that there's a plan for your personal life when you do hang it up. You know what, you use the doctor analogy and I like that obviously because I like to use those analogies as well.(...) But when you have the team, we talked about CPAs, attorneys, wealth managers, I think and I think you kind of alluded to this, but it's important too to have a quarterback of it.(...) My son, as you know, recently was in hospital. He's fine right now, but I felt like one team was doing certain blood work. Another team was doing this.(...) In my opinion, from my perspective, the communication was awful amongst themselves, right?(...) You know, one person said we need to do this test. The other one said we already did it and it came back negative. The communication, you have to have what I would like to call the one neck you can ring if something goes back, right? And I think that's what we try to do for our clients is, you know, we know a lot about estate planning and exit strategies, but we're not an attorney, but we can quarterback the whole thing to bring in the right team, whether it's finding the business partner to help sell the business, whether it's a CPA, the attorney, and then make sure it all gets executed because it's easy to come into a meeting, I think, and say, "Hey, Mr. Client, I'm going to do this, this, and this."

(...)

People don't follow up with what they promised to execute. And I think that's the value we bring sometimes is keeping these professionals feet to the fire and documenting what everybody's responsibility is and making sure they do it, right?(...) A lot of clients use us. Yeah, because depending on how they manage it, maybe we make them a little bit more money. But I think another reason is for the financial planning and removing the anxiety and the uncertainty and time back in their life.(...) You know, me as the consumer of that hospital, and the big one here, you know where it is, I don't want to get in trouble with them, but I thought that, you know, the communication was lacking, whereas if you have a quarterback leading it. And the important part of that is, as you mentioned, the quarterback, a lot of business owners come into the exit planning strategy thinking that they have to be that quarterback. And believe me, when due diligence starts, that's the last thing you have time to do is to try to communicate messages from the attorney to the CPA. You need to hire someone that is that quarterback. There's a phrase that a business coach once told me that stuck in my mind. Dan Sullivan with strategic coach, he talks about ask, ask who not how, right? Same thing. Most of our clients, I think, think like that they want to, they want the who to do it, not necessarily how they don't want to be an expert. My shoulder surgery, I don't need to learn how to do it. I'm not going to perform it on other people. I need to know who's going to do it. Same thing with then I was talking about my son. I don't care necessarily what they're doing. I want to know who's the one person that that's overseeing the whole project, if you will. And whose neck you can ring. That's right. That's right. Well, thank you

so much for joining us today, Tim. I hope everybody enjoyed this episode and we'll see you next time. Appreciate the opportunity. Thank you, Glen.

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