

WEALTH MANAGEMENT IN THE NEW ECONOMY

investor strategies for
growing, protecting
and transferring wealth

NORBERT M. MINDEL

CO-FOUNDER OF FORUM FINANCIAL MANAGEMENT, LLC

AND SARAH E. SLEIGHT

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Wealth Management in the New Economy

*Investor Strategies
for Growing, Protecting
and Transferring Wealth*

**NORBERT M. MINDEL
SARAH E. SLEIGHT**



WILEY

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey. Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data:

Mindel, Norbert M., 1952-
Wealth management in the new economy : investor strategies for growing,
protecting and transferring wealth / Norbert M. Mindel and Sarah E. Sleight.
p. cm.

Includes bibliographical references and index.

eISBN : 978-0-470-59010-2

1. Investments-Management. 2. Portfolio management. 3. Retirement income-Planning. 4. Estate planning. I. Sleight, Sarah E. II. Title.

HG4521.M468 2010

332.6-dc22

2009033772

To my wife,
Judy,
and my children,
Rachel, Ariel, Talia, and Zachary

Preface

It has taken me 30 years to write this book. I don't mean I have been working on this manuscript all that time, but it has taken me more than half a lifetime of experience to learn enough to be able to share my expertise as a wealth manager.

I have spent my career helping my clients grow, preserve, and protect their wealth. Over the years I have worked with hundreds of advisers and their clients as well as with my own clients. My story goes beyond my personal circle of experience; it is also the story of Terra Securities, the financial services firm I co-founded and which provided my laboratory for learning; and it is the story of my clients, my business partners, and the era I lived through. It is also the history of the financial planning industry, from the early days when financial plans were cranked out by the first primitive computers, until now, when a real financial plan has to integrate all aspects of wealth management.

What is the most important lesson I have learned? Growing and preserving wealth is not about picking investments, and still less is it about getting rich quickly through some stock tips. In fact, accumulating money is only a part of it. The single most important part of managing wealth is managing risk.

But managing risk does not mean *avoiding* risk; you will not be successful if you bury your head in the sand and your money in your mattress, even though that is what many clients want to do right now. Even after the disastrous down markets of 2008, I still believe that *not* staying in the market is the riskiest strategy of all. If you want to accumulate

wealth, your long-term investment strategy has to accept risk and learn to manage it.

This message about the importance of managing risk is essential to the way I do business and the way I advise my clients, but it is not widely discussed in the popular media or even in the financial industry. Because many clients like to get their information from reading, I looked for a book I could recommend that would integrate all the aspects of wealth management with an overall understanding of managing risk—and could not find one. I knew then I would have to write my own, and talk about my own lifetime of experience.

I want to share with my readers the same kind of advice I share with the clients who sit in front of me in my office. My subject matter might surprise you the way it sometimes surprises my clients—I do not focus on finance and investments alone. I have known for a long time that accumulating and preserving wealth could not be accomplished through investments alone. This is truer now than it has ever been, despite the market debacle of 2008. However those markets affected you, you will still be able to accumulate assets, and protect and preserve them and pass them to the next generation, if you look beyond the investments alone and learn to understand risk.

My experience has been expensive. I made a lot of mistakes, but I wear them proudly because I made them with the best will in the world and while trying as hard as I knew how to do the right thing for my clients. I wish I had been able to avoid some of the mistakes I made; however, I am willing to share those mistakes because I think my readers can learn from them—and avoid the long years I spent in the wilderness. I believe my personal story can provide insight into an entire chapter of Wall Street history, and that reading about my efforts to help my clients can

help other individuals better understand the astonishing period we have just lived through.

I tell my own story because it is what I know. But there is another important reason for including my own experience and stories about my clients in this book: Everyone loves stories. This kind of information can be dry when offered up in textbook fashion. I hope my own life experiences can bring the material to life and make it more interesting to read and easier to understand.

In this book I describe the failure of the people I call the Really Smart Guys (RSGs) on Wall Street, and why it was really only a matter of time before they collapsed. Books about the calamitous events of Wall Street's recent failures are going to pour out over the next 25 years, but that is not the purpose of this book. I am concerned above all with how the fallout from these gigantic system failures will affect the wealth strategies of my readers and clients going forward.

I explain why the notion of hiring so-called smart advisers to pick stocks is a waste of time. I tell you what the academics say about how markets really work and how I discovered a sustainable investment strategy. And I discuss how the system for delivering financial advice is broken and how clients need an independent, fee-based adviser who sits on the same side of the table as they do.

Managing wealth requires strategies to protect wealth from the risks of litigation, ill health, premature death, and taxes. It also requires you to plan for your retirement, when you will need a stream of income to maintain your standard of living for 30 or 40 or 50 years. I discuss the mysteries of the arcane world of life insurance and what you need to know before choosing a carrier and a policy. You also need to understand how to protect yourself from unnecessary estate taxes and devastating medical costs. Beyond that, when people accumulate wealth, they often have a decided

perspective on how they want that wealth transferred to the next generation, and they need a basic understanding of how estate planning works.

None of this is easy or obvious. This is not a book about budgeting for credit cards or pricing a mortgage; this book is about managing and protecting your serious money for the rest of your life.

I believe that reading this book can help make you more knowledgeable in general about the topics of wealth management and will help make you a more informed investor and consumer of wealth management services. I hope you will be interested in the stories from my own practice and history. By the time you finish reading this book, I hope you will have a better understanding of risk and return and will be better able to manage both. You will also understand that although there is a great deal of the overall wealth management process that you can attend to yourself, depending on your own interests and lifestyle, you will have to consult specialists for at least some parts of the process—unless you are an estate-planning attorney or investment adviser yourself. Reading this book will give you a clearer vision of the strengths and capabilities such professionals should have.

So then, turning to the book itself, I divide the world of risk for individuals into four main categories:

1. *Investments and wealth accumulation.* How should you invest your money? Is your money safe? Will you receive a market rate of return? Is your money really invested the way you think it is?
2. *Retirement and retirement income.* Are you going to have enough money for all of your retirement? When you think about retirement, you have to take into consideration *longevity* risk, the risk of outliving your money; and *point-in-time* risk, the risk of retiring into

a bear market. What is the most efficient way to turn your wealth into a stream of income to last the rest of your life, no matter when you retire or how long you live?

3. *Wealth and lifestyle protection.* What kind of insurance do you need, for all parts of your financial and economic life? Do you need permanent or term life insurance? What kinds of policies should you consider?
4. *Transferring your wealth.* How do you organize your entire estate so that you can enjoy your assets during your life but pass them on as you wish after your death? If you are part of a family business, you will have special concerns.

This book is divided into five main sections that correspond to these kinds of risk. Parts I and II address the investment part of the wealth management story. Part I relates my own experience in learning about managing wealth and the reasons the traditional methods did not work for my business, my clients, or me. Part Two introduces the investment philosophy I now endorse and use in my practice, but you will never encounter this kind of low-cost, passive, massively diversified strategy on Wall Street.

Part Three addresses income planning for retirement. Chapter 7 provides an introduction to the topic; Chapter 8 discusses the good and bad aspects of annuities; and Chapter 9 provides an introduction to the world of qualified plans. Make sure your IRA beneficiaries are up to date!

Part Four addresses an individual's need for various kinds of protection. Chapter 10 provides deep insight into the world of life insurance, and was written by my colleague Howard Kite, who has been working with—and trying to understand—insurance for most of his career. Chapter 11 provides an introduction to the need for long-term care

insurance: why it is one of the most important elements in your entire estate plan, and why not having it can devastate all your otherwise well-laid plans.

Part Five addresses estate planning. An introduction to its most important principles will have to suffice, which I provide in Chapter 12. Chapter 13 is a look at the specialized circumstances of estate planning for family businesses. Entrepreneurs, especially those with family businesses, are some of my favorite clients, and this chapter is for them.

Finally, in the Epilogue I summarize some of the most important things I hope you will have learned by reading this book.

I suggest you take a step back and look at some of the important questions and issues you will read about in this book. By the time you have finished reading, I hope you will have a clearer view on all of these questions.

- The smart guys on Wall Street have long loved to offer the prospect of outsized returns in the form of hedge funds, gold and other commodities, structured products, derivatives, technical analysis, momentum investing, market timing, and more. Wall Street has always loved to gamble with *your* money. What do we understand now about these products? After generating billions of dollars in profits for themselves, in the end these smart guys failed their shareholders, their clients, and themselves.
- What can we learn from the demise of traditional Wall Street? Firms that had been in business for 150 years went bankrupt, sold themselves to other firms, or transformed themselves overnight from investment banking to commercial banking. Why is it important? The most ironic part of it all: Less than a year after their most abject failure, those guys are still around,

ready to turn secure investments into structured products and talk the blather of Wall Street's golden years.

- Why is investment success so elusive for so many individuals? How do you recognize the right long-term investment strategy?
- How does the way you create wealth lead to predictable, identifiable mistakes when you try to protect and perpetuate it?
- What role has the financial media played in whipping up hype and investor frenzy to support Wall Street's casino mentality?
- Why are individuals so reluctant to take the steps necessary to protect themselves and their families from the dangers of litigation, ill health, and the IRS? Learn why the biggest threat to your portfolio is not a bear market but disability or a stay in a long-term-care facility—or your own inability to decide to protect yourself proactively.
- What types of insurance are cost-effective and necessary and what types are just expensive or even dangerous to your financial well-being? When do you need short-term insurance and why does long-term wealth transfer require permanent insurance?
- Have you ever met an annuity you could like? Today's annuities are not the same instruments your parents rightfully shunned, and you might need to use them to get to your long-term retirement goals.
- Why are individuals their own worst enemies when dealing with estate planning and inheritance?

My book is different because it is about the larger context of managing wealth. I am not going to tell an amazing story of techniques that only I can use; I do not depend on a secret sauce or a black box or a strategy so arcane it requires a PhD in physics to understand. In fact, I believe

more strongly than ever that understandable, transparent investments are the only ones that individuals should use.

My principles of wealth management can—and should—be put into practice by anyone who wants to create and sustain wealth while managing risk. I hope my story will inspire others to work smarter while preparing for the future. Finally, despite all those other thousands of books you can consult, this is the only book that integrates all these topics together at a level of complexity that is understandable and actionable for normal people.

Acknowledgments

This book is about my experiences and lessons in becoming a better financial adviser. As with all life experiences, there were good times and bad, but through them all I had great teachers and friends along the way.

First, I thank both Dimensional Fund Advisors and Genworth Financial for generously allowing us to use some of their source material and research.

Turning to the important individuals in my life, who would ever have guessed that the guy who sat next to me in my law school tort class would be my friend for the rest of my life? Joseph B. Hudetz's coupon business helped subsidize our penniless law practice when we first started out in business together after law school, and 30 years later, he remains one of my closest friends. I will always be grateful to Joe.

Who would ever have guessed that the lunch Joe and I went to in 1979 with David S. Reedy would lead to an assignment to write legal documents for some real estate securities—and then to 30 more years in business together and a lifetime of friendship as well? Dave always brought optimism and cheer to get us through our most difficult times in business. Dave became a great business leader and I was smart enough to follow; he was president of Genworth Financial Securities when he retired. I also want to thank him for his help on this book. He had details and stories I could not believe he remembered which improved the book significantly.

I want to thank Brian T. Savage, CPA, PFS, CFP®, who taught me 30 years ago, when I was a young lawyer, not

only how to deal with the IRS but also much of what I know about the U.S tax system. Along the way, he also taught me about the joy and history of the Irish, as well the fact that March 17 is a holy day. He has been my business partner, and one of my closest friends and confidants, ever since. His analytical skills are rare and helped us build a great business.

I cannot say enough good things about Marcus K. Heinrich, CFP, who has been my partner in two different firms. He burst onto the scene at Terra and brought so much enthusiasm and vitality that he energized our program and took it to a new level. He brought innovative thinking and a commitment to success that served Terra extremely well. Marcus was then brave enough to join me in founding a second firm, Forum Financial, and we took on the challenge of starting an advisory firm with few clients. I appreciate the contributions he made to this book. Marcus has taught hundreds of financial advisers how to be better advisers.

I want to thank Howard S. Kite, who loves to teach and mentor young advisers so they can become better advisers. When I was a young adviser, I had little knowledge of the insurance industry. Howard's unique gift is to be able to take the arcane words of an insurance policy and explain them so even I can understand. The chapters on insurance demonstrate his ability to make the complex understandable. Those chapters also make this book better.

I give special thanks to Susan Williams and Byron Faermark for their work on the estate planning sections and to Debra Carpenter for her contributions to the chapter on long-term care. This book is much better and more complete because of the contributions of these three individuals.

I am extremely grateful to Annette Bronkesh, an experienced PR professional with the world's most amazing Rolodex of contacts, for getting us over the finish line with

our publishers. I very much appreciate her enthusiasm for this book.

Finally, I also thank the rest of my partners at Forum for their support during the time we were writing this book: John J. Adam, EA, CFP; Mary Pat Wesche, CPA, PFS, CFP; Joseph A. Spokas, CPA, PFS, CFP; Robert T. Methven; and Jack A. Folkerts, CPA, CFP. Even more important than my partners are the people who run the office and keep us organized. I want to thank Allison Tronnes, Debbie Manno, and Elise Milo for their diligence every day doing work I could never do (paperwork above all)—and for making us all better advisers.

I owe special thanks to the following people who helped to make this a better book: Thomas Mengel, CLU, ChFC, MSFS; Charles Surdyke, CFP; Thomas Murphy; and Mark Finke, CFP. I also owe special thanks to Alan Hambourger, CPA, CFP, PFS; David Strulowitz, JD, LL.M.; Raymond Sullivan Jr., CPA; Arvin Weindruch, CPA; Jacob I. Rosenberg, CPA, CFP, PFS; and James H. Bernath, CPA, CFP, PFS. I want to thank Michael J. McManamna, who understands how the numbers really work better than any of us, and Steven J. Sheehan, who has been a good friend throughout the whole odyssey of writing a book and finding a publisher. I thank Christopher Genzler for his 10 years of hard work as a colleague and a friend as we built the fee-based business post-Terra; I could not have asked for a better coworker through the thick and thin of those first years. Thanks also to Ted G. Stricker.

Sarah and I are both extremely grateful to Matt H. Miller, CFP, of Dimensional Fund Advisors, for volunteering to help us with this book and shepherding it through the permissions process with DFA. I thank my daughter Rachel Mindel for taking on the challenge of designing the charts for this book.

I already knew that writing a book was very hard work, based on my earlier book. I did not realize, however, that it could also be a great adventure until I started working with Sarah Sleight. The fact of the matter is that knowing a lot about a subject is very different from being able to write about it, let alone write a book about it. Thank God I was lucky enough to find someone who could listen to my blathering and actually turn it into a book. She was able to take my lifetime of experience and add to it her own deep knowledge and understanding of the products and issues we address, thus allowing her to connect the dots that I left unconnected, fill in the background, and construct whole chapters. And then she applied her writing talents to turn the whole thing into a book that we hope people will want to read.

But when all is said and done, there is one person to whom I owe my life and who makes my life worth living. There are very few wives who would put up with the insanity and uncertainty of a husband who does not have a steady paycheck and keeps starting new businesses. I could never have gotten this far without Judy by my side, to tolerate all the days and nights I spent working, to do more than her share to raise the children and make a home for all of us. Because of her I have the American dream. I also thank my kids, Rachel, Ariel, Talia, and Zachary, for their ongoing love and support, although to this day I think they are not really sure what I do for a living. I know they always suspected that I did some kind of secret government work, but sorry, kids, the cat is out of the bag: I am not 007 or Spiderman (never mind that costume you found in the closet—talk to your mom about that).

Introduction

You might not expect the lonely, only child of Holocaust survivors to be telling you how to grow, protect, and transfer your wealth in any economy, let alone this one. I am often surprised by where I am today because my early years were so hard. My parents owned a kosher deli in Brooklyn and worked 80 hours a week. We never went out for dinner, never went on vacation, never owned a car. We never went anywhere. As an only child, my role was always and only to make do. I led a solitary existence. I made friends in school, but that was the limit of my social circle.

My father would close the deli only for the Jewish high holidays and Passover. My parents were not particularly religious, which might seem ironic to an outsider, given the Holocaust background. They kept the deli open seven days a week, trying to make a living. My dad was gregarious and engaging but not a particularly good businessman. He was the salesman while my mother was the bookkeeper, so I guess they made a decent team. They eked out their poor living without reaching the middle class.

We would get together with the rest of my family for Seder. These family occasions form some of my earliest recollections. The family did not talk about the war, but occasionally some black humor would seep out. We knew about the camps because my aunt had tattooed numbers on her arm, but survivors were reticent to go into detail.

My entire childhood had a dark, foreboding background that seemed the more ominous for being mostly unexpressed. I wonder if I would have felt differently if the stories had actually been told. But then, how could you tell that kind of story to a child without doing even more

damage? So many children grow up with what I think of as a *Sesame Street* approach to life: Life is wonderful and beautiful. But I was surrounded by people who, although they seemed to be happy enough and were certainly functional, had lived through unimaginable horror. As a small child of five, six, seven years old, I gained a very dark impression of life that I have never lost. Is the glass half full or half empty? The answer for me is always the same. Against that horrific background, life is extremely fragile.

Growing up in New York City in the lower-middle class, surrounded by immense wealth, branded me with a starvation complex I have never outgrown. Every day, my parents worked endless hours to make a poor living and we were always in danger of falling into outright poverty. I lived this way through my entire childhood and absorbed into my soul that fear of falling off the edge. We had no financial cushion. Even now, after all this time, I can find myself gripped by the irrational anxiety that I am going to be back there again, looking into a black hole of poverty. Of course it is irrational—that's the nature of anxiety: It attacks you at your emotional core like a nightmare, before your rational mind has a chance to come to the rescue. To this day, that starvation complex drives me relentlessly towards more work and more achievement. The further away I am from that place, the happier and more secure I feel.

The Train Set

Jewish or not, when you live in New York City, you get caught up in the festivities of Christmas. For me, a high point of the year was my parents taking me to Manhattan to go to Radio City Music Hall and see the show and a movie. Then we would go to

Macy's. One year I was transfixed by a train set I saw there. I had never seen anything like it and I wanted it. I stayed there for an hour and wanted to stay longer. I could tell that my parents were wishing they could get it for me. They looked at each other and my mother sighed and said, "Well, let me go see if I can put it on a credit card." I didn't know what that was, but the long and short of it was that we could not buy the train set.

When I look back at that time now from my current vantage point as a father, my heart breaks for the parents who wanted me to have a toy they could not afford. I was not asking for anything outlandish; it was the same kind of train set middle-class boys all over the country got for Christmas.

Even at that young age, that was a turning point in my life, and it later became an obsession. I never want to be in the position of not being able to afford the train set.

Family Influences

I am probably no different from anyone else in saying how profoundly my life has been influenced by my family. But my family was not the *Ozzie and Harriet* American ideal. I got a sense of darkness and skepticism, as well as a perspective on the fragility of life, from my family of Holocaust survivors. Although I was an only child, other family members influenced my life so profoundly that I do not know who I would be today if I had not known them.

No one is quite sure how my father's son Sam managed to survive World War II. My father had been married before the

war and most of that family was exterminated in the concentration camps. After Poland was divided between Germany and the Soviet Union at the beginning of the war, my father found himself in Siberia with his brother. He got separated from his family and wound up in the British army. Sam was the only other survivor from my father's first marriage.

Sam was 13 when the war started, and he forged papers to prove he was baptized as a Christian. He joined the underground during the war, and his work with the Jewish underground after the war ended with his nervous breakdown. Somehow he made it to the United States, got his plumbing license, and reconnected with my father before I was born. Sam was an intimidating individual who became enormously wealthy and successful doing plumbing construction in prominent Manhattan high-rises.

He was one of my most important role models. His amazing success, built out of a background of privation and personal suffering, demonstrated to me what can be achieved by focusing intently and maintaining discipline, despite obstacles that are literally incredible to us. Sam survived the Holocaust to become a rich and important citizen; I would never have to overcome anything remotely as challenging.

My mother was another driving force in my life and represented an intellectual pillar for me. My father was the outgoing one, whose gregarious nature provided a role model for whatever sales skills I have. But my mother, along with her four siblings, had received an elite education in prewar Poland and somehow survived the war. She spoke five languages and read books in French and German throughout her life. My mom was small physically but was one of the toughest, most resilient people I have ever met.

While my brother inspired awe for being able to struggle and fight for success against tremendous odds, my mother inspired intellectual curiosity and my rabid desire to accumulate knowledge. She passed down to me as well the Jewish tradition of learning, reading, and going to college. She taught me how important it is to study, study, study. This has been one of the most important influences in my life.

My mother had grown up in a wealthy, prestigious household, and then, through no fault of her own, lost her family, her friends, and the life they had led. Now she had to work very hard, 80- to 100-hour weeks, for such little profit that she could not afford to buy her son a toy train. You might expect such a person to be angry, bitter, and miserable. But she was not. She accepted the change in her life's circumstances very philosophically, no doubt because she was so profoundly happy to be alive. She never focused on money or material possessions. Her goal was to build inner toughness. She realized how fragile existence was and how little security anyone ever had. My mother never lost her intellectual curiosity and, at the same time, this diminutive person was never intimidated by anything.

The hard life my parents lived, set against the background of darkness that I was aware of but did not yet understand, underscored for me the importance of my mother's exhortations to get as much education as I could—which I did. However, it seems like tragic irony to me that, after all, her excellent education had not done much to improve the circumstances of my mother's life.

With rare exception, my mother did not talk about the war. She said that her father buried the family's wealth in the basement. There was always family lore about trying to go back and find the money they had put away, but only the

children survived the war. It was not clear whether the siblings could even have located the family home.

High School Experiences and the Gypsy Cab

Beyond my family, my high school experiences were also formative. When I was finally old enough to go to high school, I passed a tough qualifying exam to be accepted into what was basically an engineering school filled with 6,000 male nerds and geeks. Brooklyn Technical High School specialized in engineering, math, and science, and I chose it because I thought I wanted to be an electrical engineer. That idea might be laughable now, but it is not that easy to figure out who you are or what you are going to be good at when you are 13.

Unfortunately, the school was located in the middle of one of the worst areas of Brooklyn. My friends got mugged. There was no way to stay after school for activities, and the idea of a football or basketball team or any kind of school spirit was laughable. The year after I graduated they allowed girls in; my timing was always impeccable.

It was an incredibly elite education because of the competition to get in. I met blazingly smart people who went on to fill the rolls of Harvard, MIT, and the other top universities, but it was not a place that helped anyone develop social skills or networks of friendship.

The summer before I went to college, my mom scraped together some money to get me a 1968 Ford Torino with an eight-track stereo player. I worked in New York City as a car service driver, a nice name for what is basically gypsy cab driving. That means that I drove a car for pay but did not have a taxi medallion or any kind of license making it legal for me to do so. I worked through a service. Only in New