Risk Management and Insurance (Episode 021)

0:00:20 Andy: Hello, Andy Tanner here, welcome to this episode of The Cash Flow Academy. Awesome podcast, today I've got a guest, actually I'm your guest coz I'm in your studio so I feel like I'm welcoming you but in reality, this is your…

0:00:41 Patrick: Mi casa es su casa Andy.

0:00:43 Andy: It's great to have Patrick Donohoe getting with this, thanks for being on again Patrick.

0:00:47 Patrick: It's awesome to be here Andy.

0:00:48 Andy: Patrick and I have been friends for a couple of years, 2 – 3 years and that's probably ???[0:00:54] now but he's one of those, everyone has a buddy that they just love to talk sharp with, all things, philosophy, cash flow, business, religion, politics, whatever and for me, Patrick is one of those guys coz first, I like to bring people on that are lot smarter than me so I'm giving my listeners about you but it's great to be here. For those that might not have caught when you are on before, just tell me a little bit about yourself, I'll let you introduce yourself, little bit about your background.

0:01:27 Patrick: I don't know if I have much of a background. Yes, so I own a company called Paradigm Life and we started out in 2007 and I discovered a financial concept that somebody else was doing and she took me under her wing, taught me quite a bit, read a bunch of books and I had some background on the internet and so I shifted gears career-wise and focused on teaching the concepts that we use and selling the financial products that we sell over the internet and so that's kinda how that started but I really became fascinated with just how easy it is to give education online.

0:02:09 Andy: It's interesting, Paradigm Life deals with insurance and it's funny because the perception of insurance for some is different than another's. One of my favorite movies is with Bill Murray with Groundhog Day and everyday he has to have Ned Ryerson come to sort of…

0:02:27 Patrick: Ned Ryerson.

0:02:29 Andy: Ned Ryerson, how are you doing? And sometimes he blows him off, sometimes he buys all his insurance and makes Ned's day. And it's funny because in that movie they portray, here's Ned the insurance salesman and people realize everyone knows the insurance salesman. What I think is the most interesting the way I love speaking to people in insurance is there's a, one of my favorite articles in the Wall Street Journal Patrick is in 2007 and it was written by a writer named Karen Richardson and the headline of the Wall Street Journal article is Buffet's Scores with Derivatives and this is how the article begins: "Billionaire insurance salesman Warren Buffet has been selling more derivatives lately". And so isn't that interesting that she was struck that the richest guy in the universe that we know, the most successful investor of all time is an insurance salesman, he owns GEICO and the reason I love to talk to people in insurance, particularly the way you do it is when people hear Ned Ryerson insurance, they think, oh someone's gonna try to sell me something. I'll tell you, if Ned Ryerson, if I got a chance to talk to him, I'll take him to dinner because here's why. When I think about insurance, I think about the people who are the best at managing risk on planet earth and as an investor and as listeners, the reason, I congratulate people for listening and the reason I congratulate you for listening is because you care about cash flow and we care about risk management, we care about what the future holds and most of all, we care about what happens when things go south. And a principle is something that's true in all cases and so I welcome Patrick to the program because what I really want to draw out of Patrick for you is I want to talk a little bit about the unknowns, I wanna talk about how do we deal, how does an All State deal with hurricane Katrina? How does GEICO deal with an earthquake in California where there's a thousand automobile accident instances in 10 second period, how do we deal with a tsunami at the scale one in Indonesia where you have or a meltdown of a reactor in Japan, these are cataclysmic events and what I know is a principal is something that's true in all cases. So financially, there can be cataclysmic events in stock markets and in housing markets so talk a little bit, when I say risk management, coz that's, my 4 pillars program, 4 pillars and the final and most important crowning pillar, the last thing you do before you take a position is you think, okay, what if hell breaks loose? What if the tsunami happens, what if the volcano erupts, how do I manage the risks? What comes to your mind when you think of risk management?

0:05:35 Patrick: Well, I mean, there's always that x factor, there's always the unknown and so you can either take that blow, right? Or you can pay somebody else to take that blow. So when there is some sort of cataclysmic event or there's some unknown that happens to you, I'm sure that we all had experiences where we've had to take a ground of it. If there's a way to pay to offset that if it does happen and if it's not that much, right? Then we can leverage insurance, that's why insurance exists to begin with.

0:06:11 Andy: I would like to propose this idea about insurance, I like to propose Steven Covey idea from the 7 Habits of Highly Effective People, one of those 7 habits is called seek win – win, seek win – win. There's a perception, Patrick and I, we were speaking about a movie we saw together called The Big Short and in The Big Short, there were winners and there were losers, I suppose there's always this idea of win – lose, win – lose. But I look at insurance, because of the idea of spreading things out, the idea of community, the idea of mutual, you hear the word mutual of Omaha, mutuality. There's a communist idea, not in the terms of China communist but in the idea of community, the commune where when we work together as people, we achieve more. That's also another habit of his, the synergy. So on one hand, you said that I'm going, I have a risk that I don't like so I'm gonna pay someone to take that risk so that means that oh, when I lose, I don't lose, they do, in other words, I don't lose when my car, when a piano falls out of the sky and mashes my car, I don't lose, the insurance company does, that's not true.

0:07:33 Patrick: Not true.

0:07:34 Andy: That's not true. Warren Buffet is willing to take risks on through GEICO that you won't take, in other words, you say look, I don't wanna take this risk because I don't wanna pay for all this so I'll pay Warren Buffet a small fee and let him take the risk. In that way, when I get a wreck, he loses not me. It's actually not true, why? Because Warren Buffet has brought value by bringing together a community of people where everybody say, look, we know bad things happen but they're not gonna happen to all of us so we'll pay Warren Buffet to create a pool of money, to create a pool money where when something bad happens to me, everyone else in that pool will help pay for it and when something bad happens to them, I'm willing to pay a little bit for it and that mutual coming together is a brilliant idea and Warren Buffet because he structures that intelligently gets to make a profit off it. I would say this: do you think insurance companies rank amongst some of the most wealthy in the world?

0:08:37 Patrick: No, they're huge. I mean, most people I know what their name, I mean, do you see their buildings, do you see their names? If you don't realize how big they are because of this pooled risk, right? And insurance, there's insurance on everything literally and so in the end, the idea of the large, the love large numbers is with a smaller number, right? You have less probability, right? Your probability goes down when lower the number but then when the numbers go up, right? That is where you have a much higher probability of profit, right? And being able to manage that risk. That's where insurance companies come in as there are, they're not insuring one people or 2 people or 3 people, they're insuring thousands and millions.

0:09:24 Andy: This is a huge point to listen to and I don't want any listener to miss your point coz the reason I want to interview Patrick was talk about risk and I wanna review what he just said coz I don't want anyone to miss it. He said look, there's a relationship between the probability of an event happening and the cost to insure it called the premium. So if I am a smoker, drinker, drowse-r, don't exercise and eat Ben & Jerry's, I just described my life minus the smoking and drinking, I'm halfway there. The premium of that community of people require for me will be higher, they'll go, look, you have to pay more than the average share because of how you live, right? So based on what I bring to the table, that's what I mean, that's a true principle. See? That works in health, that works in fire, that works in auto and it also works in markets which brings us to an interesting point, Pat, I mentioned, I made a joke, it wasn't very funny, Patrick and I have leanings and we really are lovers of liberty, we like people to be able to do what they want and I think that's okay for me to say. So we don't like mandates, we don't like the idea of a mandate being forced to buy insurance or being forced to sell my 401k holdings and take distributions but I got to tell you, I think I found a mandate that I like. Patrick and I, we go to this movie together and I realized we didn't have our wives with us, there's a later hour and our kids had homework at school so we wind up going to this movie together. I've never gone to movie, that's my first one with another man and not anyone else so I was in a man-date so I found I like man-dates now with Patrick. I'm not big on Obama Care mandates, I'm really not big on 401k distribution mandates but if you want a great mandate, take Patrick to see The Big Short or he took me actually. And he was very smart, he says I'll buy the ticket, I said, okay, I'll buy the popcorn. Well, I think it was like 75 dollars for popcorn so I think, ain't that funny? That's where they make their money. Anyway, so we're sitting there, we're watching The Big Short and the reason I wanted to interview Patrick is those of you who've taken my courses know that The Big Short really isn't big short, it was a bearish bet and they misused the term short but the way these guys made their money on the crash is about insurance. So tell us a little bit about that, these guys, I mean, give me a metaphor, I mean, in your world of life or, I mean, what were the likelihood of that happening as opposed to what they really were, I mean…

0:12:05 Patrick: Well here's the deal, we look at that type of insurance, I mean, what was the insurance, right? They were, they essentially wrote up a contract that says if this happens, you pay me money which is insurance, right? And so…

0:12:19 Andy: If there's a car crash, you pay me money, if there's a market crash, you pay me money, if the bond market crash, you should pay me money.

0:12:25 Patrick: So it was an insurance contract, okay? But I'll get in to why it was, not how traditional insurance works because you had basically, there's guy that goes in, he saw that there was some issues with mortgage backed securities and then there's, it became issues with collateralized debt obligations, CDOs, and so he was figuring out a way to write an insurance contract so that if these instrument started to fail or default then these companies would essentially pay out a claim. Now, the idea behind credit default swap was if you own the underlying instrument and it failed, that insurance was meant to shore up your lost but he went in, he didn't own any mortgage backed securities, okay? He didn't own in and this is where it got kinda crazy is he basically said: I wanna write a contract that if this event happens that you pay me, they didn't ask him how much, how many mortgage backed securities do you own? They didn't ask them, they just sated: you wanna give me money? Sure, I'll take that. So then there was another example or analogy in the movie where essentially they talked about insuring multiple homes, it's one home but there were multiple contracts on the homes so if the home burn down then basically you'd have to pay out the value of that home to 10, 12, 13, 14, 15 people and that just doesn't exist right now but in that world, the naked credit default swaps which basically is you can buy the insurance policy without owning the underlying security, that is where the whole thing cluster. It was like 20 or 30 to 1, they were 20 to 30 leveraged to the underlying asset because not everybody own the underlying asset.

0:14:10 Andy: Here, let's back up a little bit because the challenge to the podcast on this topic is the same challenge they had in the movie, here they have a movie and they have to tell a story and the story involves credit default swaps, collateralized debt obligations, synthetic bundled collateralized debt obligations, getting securities licenses at certain boards and the comical thing about the movie is in order for it to be remotely understandable, they had to have sidebars where the narrative and the plot would take "on pause" and you'd have a commercial basically, an education segment that say, here's what a CDO is. So if you don't know what a CDO is, you're gonna have a hard time following podcast, if you don't know what a collateralized debt obligation is. So let me give an analogy, what Patrick, it's an interesting insight he has here, if I have car insurance, it's almost assumed I have a car but what if I were to buy an insurance on a car wreck and I don't own a car, that seems strange. Well here's where these become interesting, it's called liquidity and transferability because let's say that I buy a car insurance from Patrick and I have no car but let's say that was transferable so now if someone else has a car wreck, I could sell them my insurance policy after the fact. All of a sudden, my insurance policy explodes in value because let's say I buy the policy and I have a 500 dollar deductible up to 100,000 of coverage and I buy that policy from you for 600 dollars. I'll find someone who just totaled their Mercedes, it's gonna cost them 100,000 dollars to replace it, how much is my contract worth? 20 grand, 30 grand, 40 grand, 50 grand? And so that's how naked, and that might be a good idea about being naked is they bought these things and in the options market, they're liquid, in other words, my ability in the options market, let's say I don't own the SMP500, I can buy a contract that lets me sell the SMP500 at let's say 2,000. So let's say I spent 2 dollars 2 months ago on a contract that lets me sell the SMP500 2,000, I spent 2 bucks on it, how much would that be worth today to be able to sell shares to the SMP500? Well, if you own SMP500 shares right now, you pay a lot of money to be able to unload those.

0:16:53 Patrick: Absolutely.

0:16:54 Andy: So if you don't right now follow everything we say, don't feel bad about it, but the good news is is this is learnable and the purpose of The Cash Flow Academy Show is education so it goes to The Big Short and you learn a little bit, listen to podcast, listen a little bit and you'll pick it up as we go along. I thought it was interesting Patrick in the movie, talk about your thing about this, you are gonna have an actuarial table on a person's life and life insurance, when do they die? The average guy dies at 85 or here's the average health of a person, whatever. And you have data that you trust, what was the problem with the data that people were trusting? In other words, the people who sold the insurance, they didn't have good numbers, talk about that.

0:17:50 Patrick: Well, I think you're probably referring to who is analyzing the integrity of those instruments which was a rating agency, right? And you had these rating agencies that were supposed to be analyzing… and they would analyze how, what was the integrity behind these instruments so would they pay, what's the likelihood of paying? And those rating agencies, they were in market competition with each other and so what they did was they started to score around their rules and it became more subjective underwriting or more subjective analysis than objective which was how everybody interpreted a Moody's or a standard import rating.

0:18:34 Andy: So Moody's is gonna say, oh, it's housing, it's triple A, who's not gonna pay their mortgage? I mean, it's the first thing you pay, it's housing, it's solid, we never had a problem with, if it's housing triple A and it's not to worry about but then you dig deeper and you say, wait a minute, we're giving a zero money down, who can qualify for that?

0:18:52 Patrick: Everybody.

0:18:53 Andy: No doc meaning no documentation, stated income which means you lie and we're giving anyone a mortgage. Well, if you give everyone a mortgage, who will get one?

0:19:06 Patrick: Everyone, like student loans.

0:19:08 Andy: Yeah. So if everyone can get a mortgage, I mean, if everyone can get access to 250,000 dollars, are they gonna buy houses?

0:19:16 Patrick: Everybody.

0:19:17 Andy: Construction industry booms, stock market booms but it's all bad money, it's all on money that hadn't been earned yet, it was money that was borrowed and that creates a time bomb. Well what these guys did is they basically said look, we think that standard imports and Moody's ratings on these things are wrong and we think eventually these people will not be able to keep the promise they made so they went and they said: we'd like to insure against this, right? We'd like to insure against the failure of these so then when people started to having them fail, they said, look, we have these agreements that will pay when they fail, do you wanna buy these agreement from us so you can execute it? And they said, it's just like my car analogy, you've got your Mercedes ruined, I have an insurance policy you can buy it off me that covers a Mercedes, you wanna buy this insurance policy off me? Well they're gonna get a lot more out of it than they did. What was your big takeaway from the movie?

0:20:15 Patrick: Well, I think it was ignorance versus being informed and I look at the analogy or the example you just gave is you had these guys that were informed, right? Or at least they had a hunch and they were looking at, okay, something's wrong here, how can we take advantage of it? But then you also had pension plan managers, right? You had endowment funds, you had huge, even insurance companies to an extent, you had mutual funds, you had all of these other people that were ignorant, right? As long as it was triple A rated, it fits my investment criteria and it has super good yield so we're gonna buy it, right? And so a lot of those pension funds and other funds were just eating triple A, it was yielding a really good return but the other guys knew that there was something up coz they were informed and they were playing ignorance, that was one of the big things. The other thing, I mean, it was entertaining, it was a really good acting, do you wanna go to first point?

0:21:13 Andy: There's a thousand lessons…

0:21:14 Patrick: There's arguably are.

0:21:15 Andy: The more we, Patrick and I have been talking about this movie over a couple of days and it seems like the more we speak, the more lessons you bring up. Here's a lesson, here's an interesting thing, if I'm listening to this podcast and I want cash flow, are there some principles that I can take from this podcast and actually use in my daily life? Here's an underlying one, this is Ben Franklin type wisdom, describe the scene, and we don't wanna spoil the movie so we got to be careful, but there's a scene where there's some, we can describe the scene without ruining in it because it doesn't need to be revelations, just ???[0:21:51] where they're trying to find out whether there's integrity in this stuff or not so they go interview boots on the ground, they knock on doors, they say who's your landlord, are you 60 days behind whatever. My favorite one is the mortgage brokers, tell me about that scene.

0:22:12 Patrick: Well you had, yah, I mean, if you look at the mortgage industry at that time, you, getting a mortgage license doesn't require a degree, right? Doesn't require, you have to pass a test…

0:22:23 Andy: They're salesmen.

0:22:24 Patrick: But you're salesman and I think the guys that they were interviewing, they were basically trying to find any which way to write a mortgage and get compensated the most on it. The first guy or the other guy was like car salesman or something like that before but you have guys that basically were, they had all these options as far as loans that they could give and they would give the easiest one, they would right the easiest ones with the most amount of money on the most amount of people and I think we'd go after, they went after insurance, they went after the ignorant.

0:23:00 Andy: And here's what was interesting about it is the lesson is greed and value because what they did is they asked these mortgage brokers saying, wait a minute, these are crappy loans, why will your institution let you sell a loan to someone who can't pay it back? And they said, by the time the ink dries, they'll have taken that crappy loan and they'll sell it to someone else and that someone else would take that crappy loan bundled with a bunch of other crappy loans and sell those to someone else. When they started to go down, they take those bundles of loans and bundle it with a bundle of bundle of crappy loans and sell it to someone. So basically, you've got a hot potato that's pooped, okay? And you're passing it around before it stinks up your business too much and you're just passing this back each and along the line, everyone's making money on this hot potato and because there's demand for them, why? Because you can sell them quick and you can get them in and so greed is a real deal, greed is a real deal. And a lot of these guys made a lot of money out of it. So as you go back your business, there's a personal checks and balances here, when you see cash flow, you can do it for salesmanship, you can do it through schmoosing, you can do it through being smarter than other people and taking advantage of other people or you can do what in my opinion Steve Jobs did, you can get people really cool stuff that's valuable because, I like Bill Gates, when I had cancer, I was laying on the table and then those lasers on me to do radiation, it's a Microsoft operating system that's doing that, thanks Bill. That's value to me, value to my wife, value to my kids. Don't anti-trust law suit that guys, give them value, right? But the lesson there is how do you wanna win your business, there's a lot of moral lessons in that thing of, and it also helps you be a smarter investor because here's the thing, not everybody you deal with out there is gonna have the same values, there's a lot of innocent people were not educated that get taken and there's a smartest guy in the room attitude of, that almost turned another chick, look, one of the problems with Enron Patrick possibly was the boss knew that the employee was doing something wrong but he figured once the employee who's doing it wrong. The employee knew he was doing something wrong who says when my boss knows about it, he's in charge. And so in business, as you seek new cash flow, it's a great lesson with this irrational ???[0:25:42] over greed that can really hurt a lot of people. A great moment in the Brad Pitt movie, Brad Pitt, these guys are doing high fives, they knew they got a winner, they're excited coz they're gonna make some money and Brad scolds them and he says, hey, you realize as you get rich, these people, they're gonna lose their jobs and poor dad comes he says he just moves here, she just got a great school, please don't let me move.

0:26:10 Patrick: He also said that when unemployment goes down by or goes up by 1%, a million people die.

0:26:16 Andy: Many people die of whatever. Well it's like Greece, Greece used to have lowest suicide rate in EU because you can't get a Greek orthodox funeral if you commit suicide, they won't give you one. It's kinda like the guys of Moscow who give a terrorist a funeral, right? If you go outside the rules. Greece used to be zero, they went last to first in suicide, it's just a horrible thing. So back to insurance, so when you look at managing risk, how is insurance, how can the insurance be a smart investment? How can you do the win – win part of it? How, I mentioned earlier if I have insurance, it would be a great win for me, it will be a great win for the company, what would you describe what a win – win looks like as an investor looking for insurance as a way to build their wealth?

0:27:08 Patrick: Well, if you look at what we do, there's, you talked about the idea of mutual, right? So the original structure of insurance believe it or not, life insurance and annuities were religious organizations, that's where a lot of the insurance companies started as in churches…

0:27:27 Andy: As were pensions.

0:27:28 Patrick: Yeah. And yeah, and so the idea is with a mutual company, you own the company and so purchasing specific type of insurance policies or contracts allows you to have that ownership and take advantage of the profits associated with underwriting. And really what it is is underwriting risk and it's pulling that risk and some people are going to, they got to pay out on some contracts and they're not gonna have to pay out another's and they know all of that data. That's one of the main reasons is participation in there gives you very good consistent yield or rate of return, it's kind of the lower portion of your asset column but yet it's the safe side, safer than liquidity, safer than checking, safer than savings but it gives you yield. Then the other side of it is that utilization and this goes to The Big Short which is how were those insurance contacts used, how was the swap used? Right? It can be used for good or it can be used for bad because buying naked, it was allowed, right? Not buying naked, buying with clothes but buying the underlying asset and insuring the underlying asset, here, it's the same thing. So utilizing this insurance contract, the biggest provision that I used personally is these insurance companies back in the turn of the century started to loan policy owners money against the equity that was accumulating and that loan provisions unlike any loan that exist but allows you, you have the underlying asset but allows you to use that loan to start a business…

0:29:05 Andy: It become your own bank…

0:29:07 Patrick: Without having a good old bank.

0:29:08 Andy: … from an asset, it's a brilliant way to do this, brilliant way. I know a lot of the Rich Dad advisors come to you for this very type of thing for their own, it's a very, very powerful concept. One of the things that was interesting about The Big Short where when the insurance companies, we won't call the insurance companies, where the institutions offering the insurance on these securities went wrong is they didn't mine their data far enough and they were trusting a triple A rating at the surface in the history without mining their data far enough. And it brought in to an interesting conversation we had and I don't wanna go in to this too deep because it'd probably be another show but you and I talked about Enron and how their data was faulty, they was inaccurate. We talked about the triple A rating, that rating wasn't accurate, they were throwing a Triple A rating on garbage. The Enron was putting in a 10Q to the SCC that was a garbage. And so that brings us to China, here we have a country A: they like to control information, you can't, why would a country control information? Because they want whatever is reported to reflect the favorable outcome to them. So if you have a country that controls information based on the rhetoric and the outcome they want, do I trust their numbers? You said your parents spend some time in China, tell me about what they saw on the ground as opposed to what China is attempting to portray to the world and any inconsistencies you see?

0:30:52 Patrick: Well, there's probably a million of them. I would say the biggest, there's a couple but they were there teaching English for a couple of year, they're retired and they went ???[0:31:02] and one of their friends Gwen and put a bug in them and they just took off, it was kind of interesting to see that transition. But anyway, they were there for 2 years and the first thing was in the university which was a graduate university they went to, they were teaching English to these graduate students but there was an immense amount of plagiarism where they wouldn't come up with their own ideas, they would leverage the ideas of others and not give any value to intellectual property, that was one of the first things that they saw. And then the second thing was just how, just society in general and mainly it was infrastructures on China, you can't, visual can on property and so there was a lot of property going up that was not needed. And so private property, we can get in to a whole conversation about how private property creates value but there, there wasn't the ability to own private property, they didn't value IP, right? And they also didn't value actual physical type of property. And so there's a lot there in relation to the development that is perpetuated by the government and so the government is essentially building buildings and cities and they're not in demand and they're doing it because they have a bunch of money and they have to spend it on something and that infrastructure, right? Creates the data that makes them be perceived as valuable, right? Because if there's, they have all these building and it's part of GDP, it means it's part of what determines their value and the growth of the economy but it was false growth, it was empty growth.

0:32:31 Andy: It's a great lesson. Insurance companies have to be able to trust their data, investors have to be able to trust their data. First pillar is fundamental analysis, the fact of the matter is the guys in The Big Short were doing a more thorough and accurate fundamental analysis than the insurance companies were and that's where they got their edge from. And as you look at China, if they put out a GDP number and I don't trust that GDP number, that's a big deal. And so the lesson of Enron, the lesson of The Big Short, the lesson of human nature is we look at China with raised eyebrows I think and I don't think if the United States, I mean, let's not look at them as the good guys, them as the bad guys, we just finished talking about The Big Short, we just crushed how many peoples' livelihoods, unemployment, we crushed them with a bubble by throwing out numbers that weren't accurate and ignoring things to promote our own benefit. Look, Allan Greenspan, Ben Bernanke, politically, you're never gonna have a US president say, you know what? Under my reign, I've really heard you guys are really screwed up or congress say you're really messed up, we point fingers, we play the blame game, we try to skew the data in terms of rhetoric rather than reality. So here's another great lesson on the podcast is fundamental analysis is a huge deal and we do it and we look at those numbers but that's why we have technical, that's why we have risk management because we don't always know if we can trust Enron, we don't know if we can trust SMP Moody's, we don't know if we can always trust China.

0:34:13 Patrick: Well it's your pillars, it's your 4 pillars because in the end, is it, are they doing it blatantly? Maybe, maybe not. I think a lot of these really a lot and whether it's Goldman or Deutsche Bank, when they were in doing the insurance, they thought, I mean, maybe some of them didn't think or a lot of them thought, hey, these are triple A, they had trust in the system and often times it's one of those things over mission, and that's where I think there's a lot of that going on right now and that's why you need multiple angles of analysis so that you can really protect yourself from human nature.

0:34:49 Andy: In the podcast, there's simply not enough time to learn everything, you learn one in podcast. I will say this, I'm a great resource for people big picture education, I'm a poor resource for specifics and details because I think I wanna differ to someone who is expert in details. And so if someone, first of all, I wanna, since you're willing to do a podcast studio for me, I'd feel bad if I didn't give you really important and solid plug. I don't do the podcast to advertise people's products and the orders, it's infomercial. I do the podcast as people will see for good solid information at the same time what they ask me for is actionable tasks, things they can do to A: learn and acquire assets. Look, what I teach is it's got to be fun, it's got to be interesting, it's got to be made simple and it's got to be real and the realness only comes when someone can make that investment. I like what you do, I think it's brilliant for many, many people, tell people how they can get a hold of you to A: learn more and B: I really do want you to put your salesman hat on a little bit and say, hey, how do I get involved at Paradigm Life, this can be a great investment for people, how can they educate themselves on whether there's a right for them, what's your website information, I mean, if you could give a 30 second pitch, tell people about Paradigm Life, how can they get a hold of you?

0:36:19 Patrick: Well, the first thing is we, because we do everything on the internet, we discover early on that when people go to the internet for information, they wanna educate themselves and so who does to basically put everything that we do on the internet and it's all free.

0:36:50 Andy: So that's one of the things I like is before someone has Ned Ryerson drop by, you get to get all these information for free, educate yourself about the investment and if you're deciding off for you, you walk away but if you decide, hey, this could be interesting, you can learn more.

0:37:07 Patrick: Yup. And so we have, it's a few years old, we're actually in the process of doing a new one but we have an e-Learning program online and so you can just go to our website and register for that, it's called Infinite 101 in our website, URL is paradigm life, P – A – R – A – D – I – G – M life.net. .com is, I think it's like a Japanese essential oil and crystal company so if you wanna go buy essential oils and crystals, you can go to but it's .net so paradigmlife.net. But yeah, it's more, it's the use of a specific tool and…

0:37:41 Andy: Got to be accredited?

0:37:42 Patrick: No, you don't have to be accredited, anyone can get it. But it's one of those things where it's been around a long time but most people have not..

0:37:52 Andy: It's a well-kept secret.

0:37:54 Patrick: …used it the way in which we were taught and so it's gonna teach how to use it because it's one of those things where you can really argue that a lot of people that don't have it couldn't benefit from it. But those require education, it's definitely outside of the Wall Street, 401k, the traditional financial planning approach and we have to have certain traditional financial planning licenses and certifications so we get to learn all about what is the tradition and we basically have found a way in which we can plug holes in a lot of the stuff it is tradition and things that are viable on pretty much every economy. And you can go back 100 – 150 years and there are examples of all sorts of people that have used these financial vehicles the way we're teaching, I mean, Disney World was started with a loan against insurance policy and McDonalds was and so it's one of those things where people are just not as familiar with it and not as familiar with how it can be used but, and even it's perfect even with what you do because you're educating individuals to really understand how they can take assets and learn how to understand markets and the direction of markets and benefit from insurance contracts, options and so forth. And so that's, I mean, it's a viable place but do you put all your money there? 100% of your assets there and we don't teach that either, you don't put 100% of what you're doing in what we tell you, they could be a part.

0:39:22 Andy: What drives me crazy is I hate advice, I hate it when people come at me and say Andy, tell me what to buy, you think gold's good, you think Paradigm Life is good, you think stocks are good? And this is what I would say and this is a very important part of this podcast so please listen very carefully coz this is gold right here, we don't invest in things that we do not understand, let me say that again. It's just common sense, people say, should I invest in gold? Whether or not gold is a good investment, is relative to the investor not the investment. If I don't understand gold, is that gonna be good investment for me? Maybe, maybe not. Should I buy real estate? Well how much do you know about real estate? Should I buy insurance? How much do you know about insurance? Should I buy stock and options, currencies, Forex? Andy, tell me which is the best, I'm not, I hate advice because advice can be poor advice, it's not a blanket statement. Gold is only good investment for people who understand it, real estate is only a good investment for people who understand it. I believe the same is true with insurance and that's where I'm pretty big fan of Patrick because he shares my passion for educating. I don't want anyone to buy a stock that didn't understand stocks, it drive me crazy because they get too much risk. I don't want anyone to buy insurance that doesn't understand insurance. So again, paradigmlife.net, invest a little time in just educating yourself about the investment and learn, write down your questions and you can get help.

0:40:48 Patrick: Another thing too is all people are self-interested whether they call themselves self-interested or not, they are, it's just part of our nature. And often times when, there's always a bias, when somebody says there's an un-bias, it's such a contradiction. So you look at sales, you look at advice and in the end, everybody, anybody that's gonna give you advice is going to be self-interested so that's in the end, is that good or bad? It depends but again, going to your 4 pillars, that might be one of the pillars that advice but you have to double check that advice with maybe the knowledge pillar and you have to double check another advice with something else and that's where a lot of education and introspection and there's a lot of ways to analyze what is good or what is bad.

0:41:40 Andy: And your financial situation and your goals, kinda on your goals gold may be great if you're interested in hedge and preserving wealth. It might not be great if you're looking for capital gains, probably terrible if you want cash flow so it depends on whether what your goals are and where your education are. Hey, this has been awesome Patrick, I wanna thank you for having me over and letting me visit you and your studio for a while.

0:42:05 Patrick: That's been awesome.

0:42:07 Andy: It's just awesome to hang out with you and I'm sure that we get really good mail wanting you to come back out there very soon. This has been The Cash Flow Academy Podcast, awesome and congratulations for listening. I hope you got some nuggets out of this from our conversation on risk, Big Short, win – wins and the insurance. Thanks again Patrick.

0:42:27 Patrick: Thanks Andy.

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