The Thoughtful Investor™

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Will You Run Out of Money?

Financial preparation for retirement has two phases. The first is accumulation. The second is withdrawal. To some degree, withdrawal is going to depend on how much you have accumulated. But even then there is the question, what is a safe rate of withdrawal?

The 4% rule dates back to a 1994 study in the **Journal of Financial Planning.** Based on historical data, the author determined that if a person withdrew 4% from a simple diversified portfolio with a conventional fixed asset allocation, they could increase the amount by the rate of inflation each year and still have some funds left after 30 years. Later, by manipulating the allocations, the author decided that a safe withdrawal rate might be closer to 5%. Other studies have indicated a rate between 5% and 6%.

Back to back bear markets in 2000 and 2008, however, caused havoc in retirement plans and transformed safe withdrawal rates into a path to ROOM – Running Out of Money. Clearly, advisers needed to rethink their recommendations.

Ed Easterling with Crestmont Research took a different look at "safe" withdrawal rates and their probability for success by acknowledging that the

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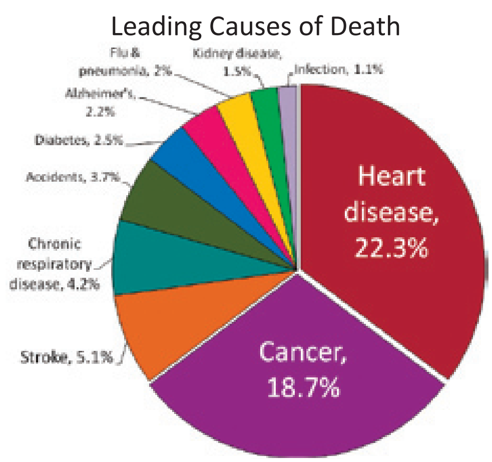
Tackling the #1 Retirement Fear

Passive or active? The question applies to your approach to health care costs as much as it does to management of your investment assets.

The cost of health care is one of the great unknowns as you plan for retirement. Worried about how health care costs will affect your retirement savings and your life in retirement? You are not alone. According to surveys, health care costs in retirement is the greatest concern among working Americans. Part of the problem is our inability to predict future insurance costs or coverage limits or the costs of procedures that might prolong or enhance our lives. But there is something we can do now with the potential to dramatically impact future



health care costs, and that is take an active approach to our health.

Lifestyles, not genes, are the biggest contributors to disease. The top killers, the ones that lead to protracted medical costs and impaired lifestyles, are

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Do You Need Life Insurance?

U.S. life insurance coverage is at a 50-year low according to the latest Trends in Life Insurance Ownership, a study conducted every six years by Limra, the investment research company. 30% of U.S. households have no life insurance coverage. Which raises the question, do you need life insurance? The answer is…it depends.

Life insurance does little good for the insured. After all, when the money arrives, that individual has left the scene. The need for life insurance depends on your dependents. Insurance is meant to cover a risk. With life insurance you're usually covering the risk that you'll die but your dependents will still need your income. If your investments and net worth will assure your dependents of financial security, then you may not need life insurance.

Some good reasons to carry life insurance are if:

- **You have a special needs child**
- **You have a spouse, children or other heirs who will need income to cover living expenses, an education or outstanding debts should you die.**
- **Your estate exceeds the estate tax exemption and is illiquid**, such as real estate, a family business or other property. Life insurance can be purchased to cover estate tax costs and keep your heirs from having to sell family assets.
- **To allow business partners to buy out a partner after death.**
- **If you want to make a gift to charity at your death.**

For more information on life insurance, including the difference between whole life and term, visit http://www.lifehappens.org/, a non-profit educational site on insurance.

Will You Run Out of Money? — *continued from page 1*

market delivers returns in "chunks, not streams." Over the lifetime of an investor, secular bull and secular bear cycles will occur. At what point these cycles occur in the investor's lifetime, whether during accumulation or withdrawal, has a dramatic impact on the likelihood that a portfolio will last through retirement.

The most significant fact determining future returns, according to Easterling, is the level of valuation at the time of retirement, as measured by the Price/Earnings (P/E) ratio. Low P/E ratios indicate the market has room move higher, increasing the value of the portfolio. High P/E ratios indicate market tops and the potential for the onset of a secular bear market. To test safe withdrawal levels, he divided historical performance of the U.S. stock market since 1900 into five quintiles.

- All 30 year periods that started with P/Es of 18.7 or higher
- All 30 year periods with P/Es from 15.1 to 18.6
- All 30 year periods with P/Es from 12.2 to 15.0
- All 30 year periods with P/Es from 10.4 to 12.1
- All 30-year periods with P/Es from 5.3 to 10.3

Then Easterling looked at the probability of success of 4 and 5% withdrawal rates in each of these historical periods. Naturally, returns for each 30-year period are unique, but the use of these quintiles provides a means of viewing the probability of exceeding safe withdrawal levels.*

2011 Is A Scond Quintile Year

Standard and Poors has forecast that the S&P 500 PE ratio will fall to just above 16 by the end of 2011, putting the market squarely in the 2nd quintile. What does this mean for you as an investor? When P/E started at higher levels historically, the stock market was positioned for below-average returns. That dictates a conservative approach to planning withdrawal levels. You can't afford to draw down your capital in the early years of retirement.

If you want to be able to withdraw 5% or more to sustain your lifestyle during retirement, you need to pursue a more actively managed portfolio that seeks higher return investments. Because these investments have higher risk characteristics, active management is essential to seek to control that risk. Remember your goal is to avoid the ROOM…running out of money.

A second caveat with respect to planning safe withdrawal rates is that life happens. We can't always control financial demands. Included with your financial plan for retirement need to be tools to control the risk of one family member's circumstances impoverishing the surviving family members, a disaster threatening your financial security, or other potential threats.

Safe Withdrawal Rate from $1 Million Stock Market Portfolio*
Withdrawal Plus Inflation: 30-year periods since 1900

		4% withdrawal rate			5% withdrawal rate		
Starting P/E Quintiles	Starting P/E Range	Success Rate	Average Ending $s	Avg. Years Before out of $s	Success Rate	Average Ending $s	Avg. Years Before out of $s
Top 20%	18.7	76%	$2,555,842	27.3	41%	$(1,141,148)	21.8
2nd 20%	15.1 to 18.6	100%	5,517,179	N/A	75%	1,624,058	22.0
3rd 20%	12.2 to 14.9	100%	7,009,735	N/A	69%	4,421,662	24
4th 20%	10.4 to 12.0	100%	10,779,456	N/A	94%	8,175,391	26.0
Bottom 20%	Below 10.4	100%	9,317,929	N/A	100%	6,889,885	N/A
All periods	14.4 avg.	95%	6,980,717	27.3	75%	3,930,573	22.6

Include Flexibility

Flexibility is as important in retirement as it is in life. While your goal may be to have 4% of your savings available to you each year, it doesn't hurt to have contingency plans in place. If one year brings higher than anticipated expenses, can you reduce spending next year to make up the difference?

You may find yourself much richer than you anticipated as you near the end of life. There's no reason not to enjoy those funds rather than keeping locked within your previous safe withdrawal level.

Interested in exploring what your safe withdrawal level is and how much you might have available to you in retirement. Let's set up a time to talk!

All investments carry risk. There can be no assurance that an active approach to investing will protect a portfolio from loss of capital.

Flexibility in your spending requirements allows you to adjust withdrawal rates to current market realities.

* Stay Out of the ROOM: An Excerpt from Probable Outcomes: Secular Stock Market Insights, Ed Easterling, ©Crestmont Research.

Questions to Ask Before You Consider Moving Assets to Another Adviser

A fact of life every adviser faces is the knowledge that our clients regularly receive solicitations from other advisers, money managers, brokers and investment companies. Some clients will leave to take advantage of those offers. What really hurts, however, is seeing former clients damaged by poor advice, or advice that does not take into consideration the client's situation. With that in mind, we present questions you should ask of any adviser who solicits your confidence and the management of your financial assets:

What is the adviser's experience and how will your assets be managed?

Don't just accept the adviser's word. Verify. Information on a Registered Investment Adviser can be found at http://www.adviserinfo.sec.gov. Information on brokerage firms and individual brokers can be found at http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/. If the individual is not registered, it is a red flag. If the individual uses a particular investment approach, find out how long it has been in use and what the results are. Results too good to be true usually aren't.

How will your assets be held?

Ideally, your assets should be invested in a separate account in your name at a national custodian or brokerage firm. You should be able to independently verify the status of your account. Your adviser should have no access to funds in the account other than a preauthorized ability to withdraw periodic fees. If you do not have transparency, your risk increases. Deposits should never be made out to the adviser.

How is the adviser compensated?

Does that compensation present a possible conflict of interest? If the individual is paid to solicit your investment in a specific money manager or investment vehicle, is their advice unbiased and in your best interest?

Has the adviser asked the right questions?

Your adviser should understand what you want to accomplish and how a recommended investment fits with your financial situation. You don't want an adviser who is selling a solution without finding out what you need.

Is the recommended investment appropriate for you?

You know best what you need in terms of capital preservation, how much and when you will need income from your investments, liquidity, ability to pass on to heirs, etc. If the individual is not asking you about those needs, you need to ask those questions. Make certain you understand the answers and preferably have them in writing. Verbal promises and assurances are not enforceable in court.

If the investment does not work out as anticipated, what is the individual's exit plan?

Will they strive to protect your investment or are you on your own once you invest?

How much will it cost to implement the new adviser's solution?

If you are required to liquidate assets, what costs will be incurred liquidating those assets? This is particularly important when liquidating insurance products. Has the new adviser given any consideration to capturing dividends prior to selling assets? What will it cost to purchase recommended investments? Will those investments be liquid or will you have to commit to a holding period?

And then, ask yourself why you are considering the new adviser.

If you are dissatisfied with some aspect of our services, we would like an opportunity to talk to you about the issue before you make any changes. If your answer is because you like the individual, you want to help them out or you feel pressured to make the change by the individual or another adviser, step back and give yourself time to reconsider your decision. Your first priority should be the safety and profitability of your assets. There will always be another opportunity to invest in the next greatest thing as long as you have not lost your assets on a poor decision.

Tackling the #1 Retirement Fear

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directly influenced by lifestyle choices. Taking an active approach to preventing them can start with as little as three simple actions:

1. Quit smoking or don't start.
2. Eat fewer high fat foods and more fruits and vegetables.
3. Be more physically active.

In 2007-2008, the prevalence of obesity was 32.2% among adult men and 35.5% among adult women. This is the real killer. The fact that you are reading this newsletter is an indication that you are probably not among this number. Wealth and education are significant factors against obesity. But that doesn't mean your weight and health are all they could be. If you want to live a long, healthy life and avoid potentially devastating health care costs, take the three points above to heart and live them every day. Even by doing just one of these things, you will improve your health and reduce your risk of heart disease, cancer and stroke.

A healthier approach to your own life could also extend the life of your family pet. Recent studies show more than half of U.S. dogs and cats are now overweight or obese. Health problems caused by excess weight in pets mirrors that of their owners — diabetes, arthritis, kidney failure, high blood pressure and cancer, and significantly shorter lives than pets fed less over their lifetime. Health-oriented owners have healthier pets.

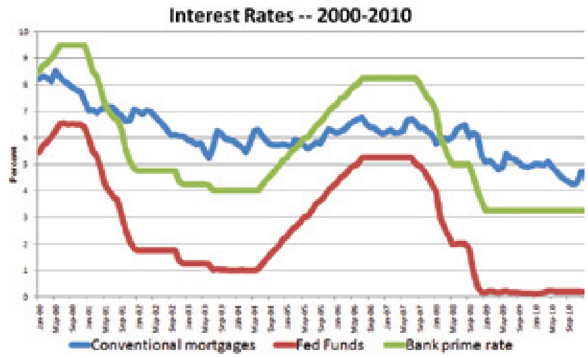
Bonds Require Active Management

Many investors consider bonds the “safe” investment. But in considering a bond “safe” you may be failing to manage some very real risks that bond investing presents. These risks are why bonds, like equities, require ongoing oversight and active management.

For starters, there is a difference between a bond fund and a bond.

An individual bond is a promise to pay interest over the life of the bond and your principal at maturity. Your have three risks with an individual bond. The first is the risk of default. The second is the risk that you will need your principal prior to maturity and be forced to sell a bond at a loss. The third risk is that when your bond matures, you will be unable to replace it with another bond paying comparable interest.

The value of a bond over its lifetime is directly related to (1) the perceived risk of default and (2) current interest rates. If you purchase a bond during a period when 6% interest rates are the norm, and interest rates subsequently fall, your bond could be worth more than its face value. If interest rates were to go up, the value of your bond, if sold prior to maturity, would fall because an investor could purchase other bonds offering higher returns.



Source: Federal Reserve Statistics Release H.15

A bond fund is a collection of bonds with differing maturities and interest rates. The manager buys and sells bonds with the goal of increasing the value of the fund. The investor receives diversification across multiple bond issues, professional selection of bonds with an eye toward reducing the risk of default, and laddering of bonds of different maturities and returns typically with the goal of creating a stable flow of income (but no guarantee).

Unless the bond fund is a Unit Investment Trust (UIT,) it has no maturity and thus no obligation to return your principal. The value of your investment in a bond fund will change in response market conditions and interest rates. If a bond fund falls in value, there is no option of simply holding it until maturity to recapture your principal. On the other hand, you gain liquidity through the ability to sell virtually all bond funds at the current fund value (NAV).

The problem with bond funds, and with bonds you might want to sell before maturity, is the future direction of interest rates. The chart below shows the change in interest rates over the last 10 years. With every drop in rate, the value of a good bond increases if sold today. It’s a good ride and one you want to stay on as long as it lasts.

The catch is that we don’t know how long interest rates will remain at their current lows. The Federal Reserve has indicated that it sees no need for increases in the Fed Funds rate in the near future. The economy still struggles to recover and low rates are a good thing for the greatest debtor in our country – the U.S. Government. What we do know is that when rates begin to rise, they will affect the value of a bond portfolio. That’s when risk management needs to be a part of the portfolio. We welcome an opportunity to review your portfolio with you and to discuss possible risks in your portfolio. Then, when rates rise, as they inevitably must, you will have a plan in place.

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