



explore your
RETIREMENT
with us...



...as your guide

Exploration Requires Planning...Resources...

Today, retirees are facing financial challenges as a result of longer life expectancies and the concern of outliving their retirement savings. Traditional asset allocation models focus primarily on accumulating retirement savings but very few models focus on the unique financial issues concerning retirement income. Accumulation investing vs. withdrawal investing creates the need for a careful understanding of the difference between the two and the need for prudent withdrawal strategies coupled with proper asset allocation strategies.

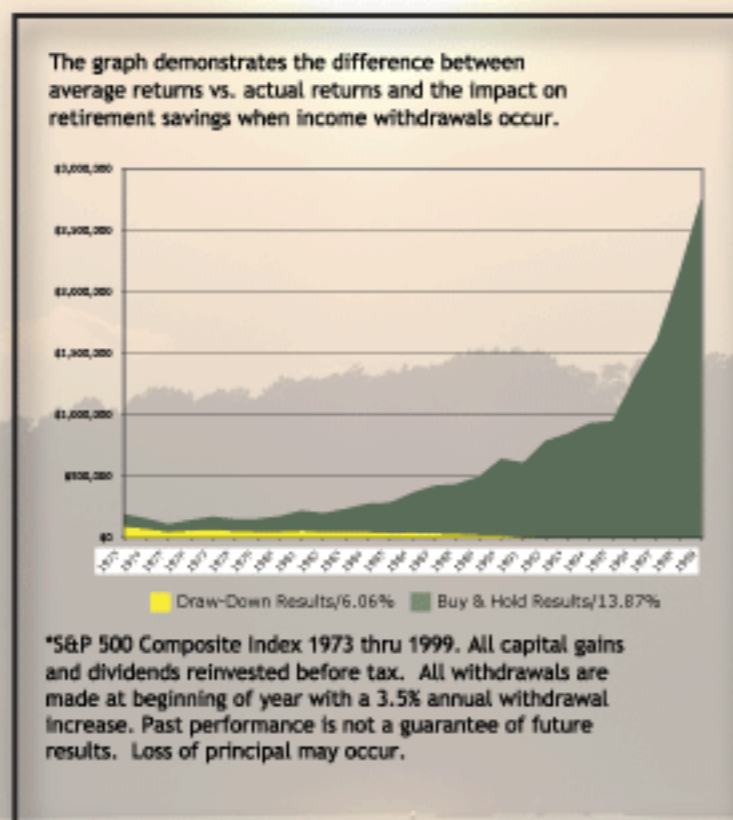
It is important for a retiree to establish a prudent withdrawal strategy which does not threaten one's long term financial security. Primary concerns are: what amount of income is required, how long you will need the income, how much will be left to heirs, what other sources of income are available other than from investments, and the expected rate of return that will be earned in the future.

A common mistake in estimating your expected rate of return is forecasting a fixed rate of return per year based on a long-term historical average rate of return. For instance, if the S&P 500 Index has averaged 12% per year since 1926, one might logically presume that over the next 25 years the average would continue to be roughly the same. In reality, historical average returns have only a probability of repeating themselves. Our analysis reveals the importance of understanding the probability of achieving a rate of return as it relates to a particular asset class or allocation.

For example, between the years 1973 thru 1999 the average annual rate of return for the S&P 500 equaled 13.87%, which would appear as though an annual withdrawal of 6% increasing 3½% annually would have been sustainable. However, because of the actual annual sequence of returns, the original retirement savings would have depleted in 1991 and compounded at 6.06%. (see graph)

Conventional wisdom defines risk as a measure of the ups and downs of an investment or asset class (known as volatility). However, this limited view fails to consider the risk of premature depletion of retirement savings. A more valid definition of risk should identify and balance a portfolio's volatility and probability of success (i.e., not running out of money).

Overall, Government bonds, T-Bills, and Certificates of Deposit (CDs) represent a legal obligation of the government, meaning that interest and principal is generally paid even in a weak economy. For the holder of Gov't bonds, CDs or T-bills, the loss of principal could occur, if in the extremely rare situation, the issuing government failed to recognize its debt obligations. This means that bonds, CDs, and T-Bills are generally less risky investment, than stocks. As a result, due to the lower risk involved, bond returns are usually lower than stock returns. Note that bonds also face market risk. A recession or inflation affects the bond markets. Sometimes market forces will cause interest rates to rise, leaving the investor holding a bond with a value much lower than the face value. Although stocks may produce returns that may be higher than bonds, T-Bills, or CDs, there is an inherent risk of investing in stocks which may result in a loss of value and principal.



“Buy & Hold Average Returns do not equal Draw-Down Average Returns...”

In general, historical asset allocation demonstrates that higher risk (volatility), normally associated with diversified stocks, provides a higher probability of success as portfolio withdrawal rates and length of need increase; as compared with low risk (low volatility) such as US T-Bills, CD's and Intermediate Term Government Bonds.

Our objective is to analyze your individual circumstances and to provide you with a clearer understanding of your probability of retirement success through analysis of historical asset class returns when observed using rolling period analysis. This method provides us with a historically supported perspective of the probability of achieving your retirement goals.

Awareness...and a Guide

In summary, the factors that most influence your financial success are the following:

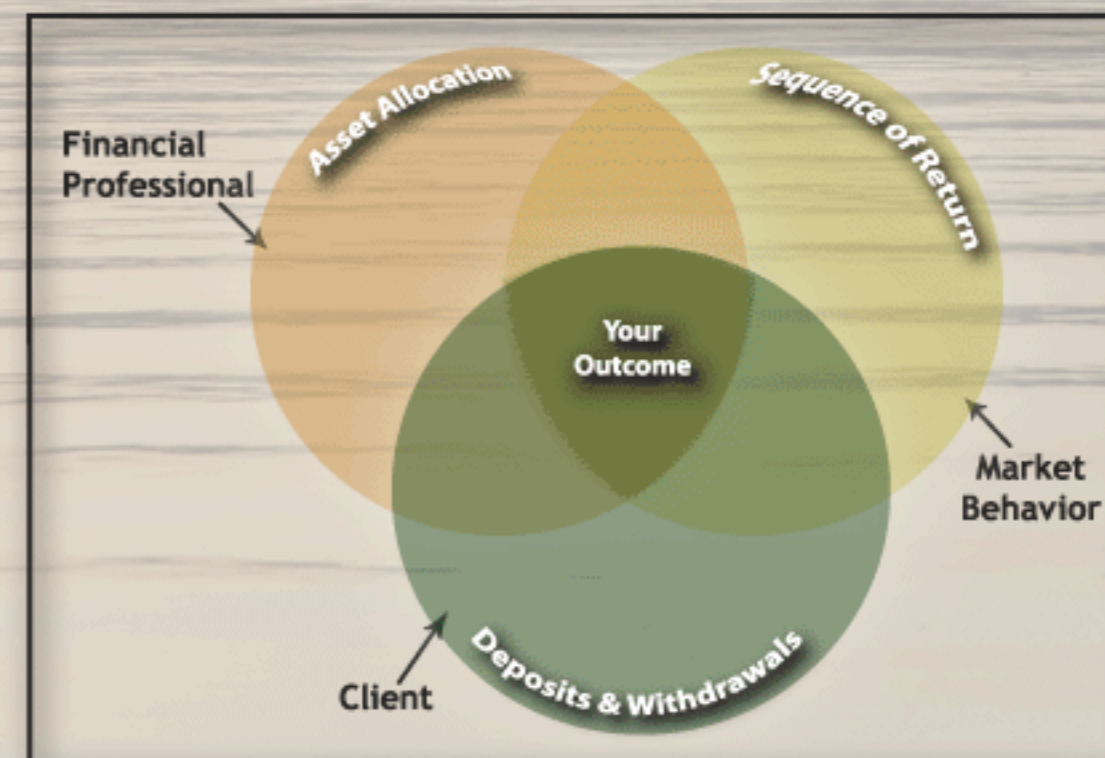
- » **Deposits & Withdrawals...** your specific cash flow goals are essential to developing a prudent and realistic retirement income plan.
- » **Asset Allocation...** or what you invest in should be carefully optimized and your risk tolerance should be properly understood.
- » **Sequence of Return...** perhaps the least understood investment concept should be incorporated and accounted for in order to understand its impact within your plan.

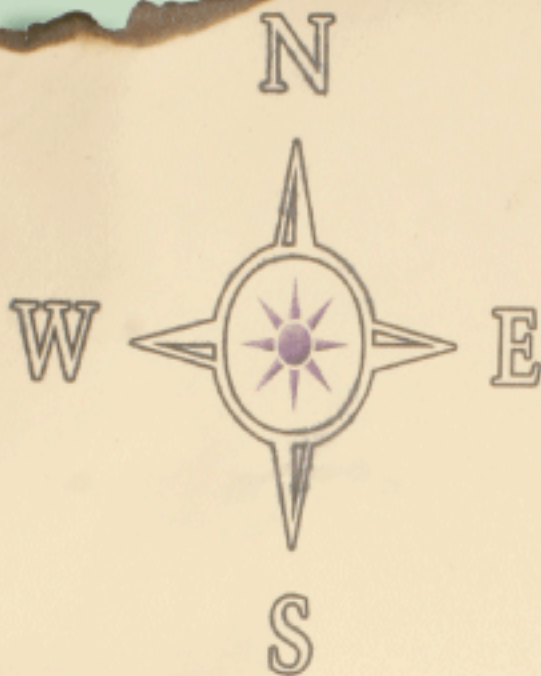
All factors will vary with each individual investor. Therefore, future outcome is unpredictable and does not guarantee success.

Of these, you as the client are most able to control the deposits and withdrawals. Thus, it is important that you communicate any change in the cash flow strategy that you and your financial professional have discussed.

Asset allocation is the factor that your financial professional will most be able to control. An asset allocation strategy will be provided for you that is based on a combination of your preferred level of risk and the realistic probability of achieving your goals within that risk level.

Finally, Sequence of Return is a factor that cannot be controlled by neither you nor your financial professional. However, this uncertainty can be dealt with using strategies that your financial professional will custom tailor to your needs in an attempt to manage the probability of meeting your income goals.





TO DO:

meet with my
financial
professional
to go over
this process
before retiring!

The 5 Step Process

