



A Guide To Your Retirement Planning - Volume III - Number 12

Welcome to Your Retirement, our monthly web-newsletter with information that can help you with your retirement planning efforts. We provide straight-forward, easy to understand, unbiased and candid information. Feel free to use this information and to also pass it along to your friends and associates. You will find previous issues of our newsletter on our website. If you are interested in additional information that can help you, be sure to check out our web site; retirementplanningconsultants.com or contact Robert R. Julian, at rrj1@cornell.edu

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Our 2006 Workshop: Planning - Saving – Investing For Retirement --- A Simple Approach: You Can Do It

What does tennis have to do with investing? Larry Swedroe thinks there is a relationship. Swedroe, in his book, *The Only Guide To A Winning Investment Strategy You'll Ever Need*, states that tennis and consistently successful investing requires a strategy. As we pointed

out so many times in this newsletter, the majority of investors and even most professionals try unsuccessfully to beat the market. They believe that they can discover – uncover individual securities they believe that the rest of the market has somehow mispriced --- the price is either too high or too low.

They also think they can discover the correct time to make their investment decision so that they can buy when the market is “undervalued” (buy low) and sell when it is “overvalued” (sell high) --- the strategy of managers of actively managed mutual funds. Swedroe notes that “Occasionally, with the same infrequent timing of my great tennis shots, these active portfolio managers will make the proverbial killing. On the other hand, over the long run, the great likelihood is that they will lose more often than they will win.” “Just as in loser’s tennis, the only way to be a successful investor is not to play the loser’s game.”

As Swedroe and many others have noted, seventy to eighty percent of active manager’s fail to beat the index returns (passively managed funds). Swedroe states that if you decide to play the loser’s game, “the only people you will likely be enriching are your broker, the manager of the actively managed mutual fund or portfolio in which you are investing; and the publisher of the newsletter, magazine or ratings service to which you are subscribing.”

And the (passive asset class investing) is exactly the premise behind our Simple Approach To Investing where we highlight, look at and discuss 12 simple, lazy-low-maintenance index fund portfolios. What is the aim of this approach? It is to produce a portfolio of low-cost mutual funds investing in asset classes that are likely to outperform the S&P 500 Index and many, if not most actively managed mutual funds. You can take a look at our Simple Portfolio #10 on page 2 of this newsletter.

“It takes between 20 and 800 years of monitoring performance to statistically prove that a money manager is skillful rather than lucky—which is a lot more than most people have in mind when they say long term (track record). Ted Aronson, “Confessions of a Fund Pro”

The Low-Down: The Sorry State of the 401(k)

A couple of months ago, the Employee Benefit Research Institute and the Investment Company Institute released their joint annual report on 401(k) plans, based on a data base of almost 18 million accounts. The picture was dismal. For someone who has had a 401(k) from 1999 through 2005, the median account balance at the end of last year was \$54,591. Median means half the accounts held more money and half held less.

That's not enough, especially when you consider that retirement for many of us will last two decades or longer. And more than half of savers say the 401(k) will be their primary source of income for retirement.

What's more, plenty of 401(k) savers don't manage their money well. A Vanguard Group study of 12,000 plan participants released in July showed that more than one in four people did not have a diversified portfolio, which is the best way to get a good return with the least risk. A diversified portfolio means spreading money across various asset classes, such as stocks and bonds. In the Vanguard study, 15 percent had no money in the stock market at all, while another 12 percent had all of their money in stocks.

The bad part about poor choices is that most people never change their investment plan, Vanguard found. Other studies confirm this. As employers become less willing to promise lifetime benefits, workers need other reliable sources of money for retirement. The 401(k) has only partly solved the problem. Some 401(k) participants take on too much risk, while others fail to contribute enough and too many plans do not offer adequate choices to invest in. Harriet Brackett, a personal finance writer for the Sun Sentinel in Florida, states “We need to do something, even a simple something, to fix today's 401(k) system. These accounts are starving for money and for good management.” What advice does Brackett have for the average 401(k) participant? “Start early, save plenty, invest wisely. You can do all this without even making a decision to do so. Could it be simpler?”

Our 2006 Workshop: Planning - Saving – Investing For Retirement --- A Simple Approach:

In the March 2006 edition of this newsletter, we featured, from Paul Merriman's book, *Live It Up without Outliving Your Money*, Simple Portfolio #1. In April, Portfolio #2; in May Portfolio #3; in June, we Portfolio #4; in July, Portfolio #5; in August, Portfolio #6; in September, Portfolio #7. in October #8.; in November, Portfolio #9. Here is Simple Portfolio #10. You can examine previous portfolios

by visiting our web site and checking our previous newsletters --- www.retirementplanningconsultants.com.

Simple Portfolio #10: The Aronson Family Portfolio

Ted Aronson heads up AJO Partners based in Philadelphia. They manage about \$25 billion, all tax-exempt institutional retirement funds. Of America's 75,000 money managers, Ted discloses his own portfolio assets and allocations. "All of my family's retirement money is in AJO funds," says, Aronson, "but because the fund trades a lot, it's not suitable for taxable investments. So, all our family's taxable money is in Vanguard's no-load index funds." His average 9.7% annual return beat the S&P 500 (2.5%) the past five years. In fact, all these portfolios handily beat the indexes.

Fund	Allocation	1-year return	3-year annualized return	5-year annualized return
Vanguard 500 Index	15%	8.51%	11.07%	2.38%
Vanguard Emerging Markets Stock Index	20%	33.26	34.08	20.35
Vanguard European Stock Index	5%	24.95	23.28	10.43
Vanguard Extended Market Index	10%	14.07	19.08	8.99
Vanguard High-Yield Corporate	5%	3.01	6.13	6.29
Vanguard Inflation-Protected Securities	10%	-1.63	3.57	6.85
Vanguard Long-Term U.S. Treasury	5%	-6.13	1.59	6.37
Vanguard Pacific Stock Index	15%	31.4	25.3	8.71
Vanguard Small Cap Growth	5%	14.81	18.47	9.83
Vanguard Small Cap Value Index	5%	12.64	20.92	11.02
Vanguard Total Stock Market Index	5%	9.74	12.77	3.84
Total portfolio	100%	16.83	18.69	9.7
S&P 500 Index	100%	8.63	11.22	2.79

(6/30/2006)

Talk to the people in your benefits – compensation – HR office about our workshop and how it can help you and your fellow employees. Ask them to get in touch with us so that we can bring this informative program to your work place this fall. We think you, the average investor, can gain a great deal from participating in this workshop.

Email: rjl@cornell.edu. Phone: 607-255-4405

“The individual investor should act consistently as an investor and not as a speculator. This means...that he should be able to justify every purchase he makes and each price he pays by impersonal, objective reasoning that satisfies him that he is getting more than his money's worth for his purchase.” Benjamin Graham, 1894 – 1976, an influential economist and professional investor who is today often called the "Father of Value Investing" and the "Dean of Wall Street.”

Getting To The Nitty Gritty: High Expenses Equals Low Returns

How many times have you heard --- “You get what you pay for”? Of course, in some cases this is true. But, when you pay high expenses and fees, does that mean that you will get a higher rate of return on your investments? When you look at the averages, the answer is “no.” Scott Burns, columnist for the Dallas News, shares the results of some research by Morningstar.

HIGH EXPENSES EQUAL LOW RETURNS?

Here are the average expense ratios of moderate-allocation mutual funds compared with their average 15-year returns as of June 30. Higher expenses appear to result in significantly lower returns.

Performance group	15-year annualized return	Average expense ratio
Top 10 percent	11.95%	0.80%
Top 25 percent	10.91%	0.94%
Top 50 percent	10.17%	1.09%
Bottom 50 percent	7.28%	1.52%
Bottom 25 percent	6.72%	1.63%
Bottom 10 percent	6.12%	1.79%

SOURCE: Morningstar Principia

“Beware of false prophets, which come to you in sheep’s clothing, but inwardly they are ravening wolves” Matthew 7:15, King James Version

Questions To Consider: Should – Can You Retire Early

You’ve heard, read, talked about or you may be one of those baby-boomers who will be retiring shortly. Some 10,000 of them will turn 60 every day over the next two decades. And many will celebrate their birthday by asking whether they can say goodbye to the world of work and hello to the world of retirement. Unfortunately for many of them, the answer is no.

Most Americans, according to a number of studies, don’t have enough money tucked away to enjoy the same standard of living in retirement as in their working years.

But that hasn’t stopped the so-called Silent Generation from leaving the work world before the so-called normal retirement age, which will be 66 not 65 for the leading-edge baby boomers. According to Robert Powell, who writes for MarketWatch.com, “The vast majority of Americans who start collecting Social Security in any given year do so at the earliest age possible, 62, even if it means a much-reduced monthly benefit.”

For instance, the average age of the 1 million men who started collecting Social Security in 2004 was 63.7. And of those 1 million, 66.6 percent were under age 65, 30 percent were age 65 and 3.4 percent were age 66 or older.

A good number of the experts say that many of those Americans who retired early never crunched the numbers to figure out whether it made sense or not. A look at the median household income for those 65 and older in 2005,

according to a Census Bureau study, was \$26,036. And despite that income, many older Americans seem to make do with what they have and are seemingly happy with what they have.

The experts add that whether you decide to stay on the job or retire early requires a plan and it should not be a flip-of-the-coin --- heads-you-retire-early-and tails-you-don’t decision. A number of factors need to be considered. If all you examine is whether you have enough money to retire early, you may get the wrong answer to the “Can I retire early?” question.

What questions should you consider?

What are your main goals and concerns relating to retirement? Who, besides yourself, needs to be taken into account in your planning (a spouse or partner, a dependent child, a dependent parent, a grandchild who lives with you or needs your support, an ex-spouse, other adults living in your home)? What is the age, sex, smoking status, overall health, citizenship, state of residence, and relationship to you, for each person? What assets do you own (preferably with lots of details here), and what income do they generate?

What debts do you have? What job (s) do you have now, how long do you expect to have them, and what jobs do you anticipate having in the future? What other sources of income do you have or anticipate: pensions, annuities, Social Security, alimony, royalties, etc., including future expectations (e.g., an inheritance, the pay-off of a family loan, etc.)? What expenses do you incur, or do you expect to incur, both as a family and as individuals? What intentions and plans do you have for what happens when you die, or if you become incapacitated? What kinds of life and health insurance do you have, including long-term care insurance?

Powell says “The answers to these and other questions could take a while to formulate. But failing to do so comes with grave consequences.”

“O, blest retirement! friend to life’s decline. How blest is he who crowns, in shades like these, A youth of labor with an age of ease!” ~Goldsmith

A Retirement Diary: Outsmarting Your Brain: Buying a \$100 Bill For \$465?

There was a great story in SmartMoney magazine a couple of months ago --- “Outsmarting Your Brain”. Professor Max Bazerman of the Harvard Business School was speaking to a conference of 75 Wall Street professionals who command six- to seven-figure incomes for managing your money. Bazerman opened by auctioning off a \$100 bill. Simple rules: The highest bidder gets \$100. And the second highest pays what he bid, but gets nothing. Forty hands quickly pushed the bidding to \$95. Then an institutional money manager and a pension-fund trustee

broke the \$100 barrier, where both were guaranteed losers.

Imagine: Two of America's financial geniuses caught up in a hotly contested duel, pushing the bids up, up, up ... to \$465. Who would bid \$465 for a \$100 bill? If you've ever doubted that investors are dominated by an irrational rat brain, Bazerman adds this observation; "I've played this game perhaps 600 times, and I've never seen the bidding stop below \$100." The best and brightest managing our \$8.3 trillion mutual fund industry are just as irrational as the rest of America's 95 million average folks who trust them with our money.

The reason I found the story interesting is that, a few years ago, when I was teaching a workshop on "Negotiation: Mutual Interest Bargaining," I used the same exercise and experienced the same results. It was amazing. The bidders in my game never got to \$465 but they usually ended up paying ---I really didn't let them pay --- anywhere from \$160 to about \$300. What is interesting is that in the discussion prior to the bidding, we would ask the question ---How many of you will pay \$100 to \$300 or more for a \$20 bill. Of course, no one would raise their hand but once the game and the bidding started, watch out!!!

And that is why Paul Farrell, MarketWatch.com says that the blind are leading the blind. "We are all playing the stock market game like rats and lizards chasing around in a maze for cheese ... while telling ourselves we're rational. Folks, our brains are our own worst enemies."

Terry Burnham, a former Goldman trader and author of *Mean Markets and Lizard Brains*, states, "We need to precisely restrain our instincts in order to make money. Unlike neutral games of chance, or ancestral problems like gathering and hunting, financial success means suppressing our 'gut' instincts."

Burnham adds, "By its very nature, investing requires us to be forward-looking, to anticipate events. Our lizard brains, however, are designed to look backward. Thus, the lizard brain causes us to be optimistic at market peaks (after rises) and to be pessimistic at market bottoms (after falls). So whether it's optimism or pessimism, greed or fear, emotions do our trading, not reasoning."

The rest of Burnham's warnings all emphasize this "new science of irrationality." You never trade impulsively on tips, from your barber, best friend, broker or your lizard brain: always include a significant delay between an investment idea and an actual trade.

Our brains are our own worst enemies. Burnham suggests, "We need to precisely restrain our instincts in order to make money. Unlike neutral games of chance, or ancestral problems like gathering and hunting, financial success means suppressing our 'gut' instincts."

How Can I: Check On Nursing Homes

Consumer Reports has issued an analysis of 16,000 nursing homes --- based on inspection surveys, staffing and quality indicators. Consumer Reports developed its Nursing Quality Monitor database. You can click on to a state to find a list of the homes that scored in the best 10% and the worst 10% in that state. Visit www.consumerreports.org and click on "Health & Fitness."

"The road up and the road down is one and the same." Heraclitus, 540bc – 480bc, "On The Universe", Greek philosopher

An Interesting Perspective: A Lifetime Portfolio

You will hear – read a great deal about investment strategy that will make you a millionaire. However, will it work? How risky is it? Can the sales person document the results with verifiable numbers? However, simpler is sometimes better and sometimes it can be a very obvious choice.

Paul Merriman, in his column for FundAdvice.com, tells us that large pension funds offer us a formula that is a better one for individuals to follow. "Pension funds are by nature conservative, since they exist for only one purpose: to make sure that retirement money will be available when it's needed, for as long as it's needed."

The typical pension fund portfolio is invested 60 percent in equities and 40 percent in fixed-income instruments. Over many years, this has turned out to be a good compromise between the need for growth (from equities) and the need to reduce risks. Historically, the 60 percent in equities has given pension funds high enough returns to stay ahead of inflation while the 40 percent in fixed-income has protected the portfolio against devastating downturns.

Merriman adds that if this 60/40 split is good enough for a perpetual pension fund, it should also be good enough for most individuals. Merriman compares three potential portfolios. One was made up exclusively of the S&P 500 Index, an all-equity allocation that represents what investors might expect without any of the stability (and comfort) of fixed-income funds. The second was invested 60 percent in the S&P 500 Index and 40 percent in five-year Treasury notes. This is very easy for any investor to replicate.

The all-equity S&P 500 Index Portfolio had an annualized return of 10.9 percent over that 50-year period. The 60/40 version's annualized return was 9.6 percent. This was no surprise, because adding fixed-income funds to an equity portfolio almost always reduces return. In this case, the 60/40 mix achieved 88 percent of the return of the all-equity portfolio.

Merriman says that hundreds of thousands of investors would be better off with this 60/40 portfolio than they are with their current investments, which offer too little diversification and too much risk. "If they did nothing more than adopt this simple mix of assets, which is easily duplicated using two no-load index funds, these investors would be more likely to achieve their long-term financial goals than they are now."

"You can't be a successful investor unless you are an investor. And you can't be a successful investor unless you have money to invest. To do that, you have to save some money instead of spending every dollar. If you save some of your money and put it away for the future, you will never be sorry." Paul Merriman, FundAdvice.com.

Sandy The Smart Saver: Join The Gold Rush

Hi, I'm Sandy The Smart Saver and I am here once again to give you some tips on Planning-Saving- Investing For Retirement and I am still taking a light-hearted approach and still trying to make the whole saving-investing for retirement process a "fun" event. And of course, I am still not your average squirrel.

About every 3 months or so, Mom (Jo) invites the family over for dinner. And along with the ham dinner the other night, we had a discussion on gold as an investment. My brother Albert, the ultimate speculator told us that he, the ultimate expert on gold, was planning to make it the biggest part of his portfolio. I said "Albert, you've been watching too many of those ads on TV, newspapers and financial magazines. I get nauseous every time I hear "Gold is the magic bullet", "The case for buying gold have never been better", "Is your retirement at risk? Gold is the solution." Albert replied, "The case for buying gold has never been better."

The next morning I called my friend Walter UpDegrave, from Money magazine and asked him for his take on gold. Walter said, "Funny you should ask. Back in May I got a note from "Anonymous" in New York City and he basically asked me the same question. "When the price of gold shot past \$600 last month for the first time in 25 years, I figured I'd missed a big opportunity. Now it has risen past \$700. Will it go higher still? Is there a way for me to benefit? - Anonymous, New York City."

I said, "That is interesting. It was \$700 plus in May and here in (October) it is \$570. If Mr. Anonymous invested \$7,000 in Gold in May, it would now be worth about \$5,700 --- that is a significant loss of about 20% in just 5 months." Walter said "That's the funny thing about gold. After it's experienced a huge run-up and is sitting at a price where you can't help but wonder whether there's much more upside left in the near future, people like Mr. Anonymous and your brother Albert can't wait to join the gold rush." I said, "Talk about volatility; do you think it will ever match the January 1980 high of \$850 an ounce."

Walter said, " I just don't know Sandy. It is one of the most volatile investments around. As a practical matter, that means that big spikes in its price are often followed by drop offs that are just as steep, if not steeper. This sort of rollercoaster up-and-down ride has been gold's trademark for at least the last 30 years."

"Walter, I said, "Is there any way to invest in gold today." "Sandy, as I see it, there are two ways to play gold. One is to try to time the ups and downs --- that is, buy when prices are low and sell after gold has spiked. I think this is a dangerous game for most investors because they're likely to get into the game late and end up doing the opposite, buying high and then selling after gold declines."

I said to Walter that I think you still have to worry about today's price of gold as an investment. He said, "Sandy, I would suggest that anyone including your brother Albert, should consider this question --- Did you buy gold a year ago when it was selling for about \$420 an ounce? If not, why do you think you know more about gold's prospects today than you did a year ago?"

"Walter, as I have told Albert and just about anyone else in my family is that all we know about the price of any investment is what has happened in the past and that gives us absolutely no clue as to what will happen in the future. Given what has happened in the past, all I see is continued volatility of prices and way too many of those ads telling me that "The case for gold has never been better."

Walter said, "I'm with you Sandy. And whenever I see that ad on TV, I will immediately hit the "Change the channel button."

"No lower can a man descend than to interpret his dreams into gold and silver." Author: Kahlil Gibran 1883 – 1931, artist, poet and writer.

Sandy Cartoon:

Wife Camille: Have you heard the latest definition of a bull market?

Sandy: No, but I hope you will tell me.

Camille: A bull market is an upward movement in prices causing an investor to mistake himself for a financial genius.

Sandy: That Camille, is a humbling definition.



Quick Take #1: The Alphabet Soup (ABCs) of Investing

When buying mutual funds, your broker/sales person, may not tell you --- even though it is in the mutual fund prospectus --- about the sales charges related to buying Class A, B and C shares. Some may even tell you that your expenses will even out regardless of whether you buy these shares.

However, a review of the prospectus will indicate that: Class A shares come with front-end commissions (about 0.25% a year) plus 12b-1 fees used to compensate the broker.

Class B shares carry larger 12b-1 fees (typically 1% a year) combined with gradually declining redemption fees. The class B shares will usually convert to Class A shares after a period of time.

Class C shares also come with larger 12b-1 fees, along with a 1% redemption fee that usually disappears after one year. The Class C shares generally don't convert to A shares.

The total costs of owning each of these shares will vary --- depending on how long you hold the shares, your return and the size of your investment. With Class A shares, you may get a break on the load when you invest an amount of money beyond certain breakpoints. However, those discounts are not available with Class B or C shares.

When you pay a commission to purchase a fund, you automatically start out with a loss. Let's say that you decide to take \$10,000 and put it into a load fund with a 5% front-end load. At that point your fund is worth \$9,500. What did you receive for giving them your \$500? Absolutely nothing. Your salesman may try to convince you otherwise but your statement immediately tells you that you are out \$500.

If you would like to determine how much you will pay for each share class, go to www.nasdaq.com and select the Mutual Fund Expense analyzer.

And the next time your broker/sales person tells you that your purchase of Class A, B or C shares will not cost you or they will "even out", invite him to share a trip on the internet to Mutual Fund Expense analyzer.

Quick Take #2: Should You Really Worry About The Future of Social Security

Is Social Security, which is sometimes referred to as the third leg of the retirement saving stool, really in trouble? It's future deficits over the next 75 years are about \$4 trillion. But in spite of those numbers, Smart Money magazine (October/2006) says even though it is a big cause for concern, "Social Security is not about to go belly up with little X marks on its eyes. In the government's current worst-case scenario, benefits around the year 2040 might be 20 - 30% less than current projections." Would - should - you worry about a 1/3rd reduction in what you were expecting from Social Security?

Quotable Quotes

- *A fashion is nothing but an induced epidemic. George Bernard Shaw, 1856 - 1950, an Irish playwright based in the United Kingdom, the winner of the Nobel Prize in Literature in 1925.*
- *The aim of investing is not to avoid risk; it is instead to ensure that you are managing risk prudently in order to fulfill your long-term investment objectives. Michael Miller, Director of Research, Watson Wyatt Worldwide*
- *The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing. Jean Baptist Colbert, 1619 - 1683, served as the French minister of finance from 1665 to 1683 under the rule of King Louis XIV.*
- *Any excuse will serve a tyrant. Aesop, 620 - 560 BC, Aesop's Fables, animal stories illustrating human challenges*
- *The game of professional investment is intolerably boring and over exacting to anyone who is entirely exempt from the gambling instinct; whilst he who has it must pay to this propensity the appropriate toll. John Maynard Keynes, a British economist whose ideas, called Keynesian economics, had a major impact on modern economic and political theory.*
- *I hear and I forget. I see and I remember. I do and I understand. Confucius, 551bc - 479 bc, Chinese philosopher*

Stock Market - Wall Street - Investment Humor -

Banks are getting serious about marketing their investment services. Just the other day, a bank robber handed the teller a note demanding money. She handed him a roll of money that contained \$2,000. As the thief turned to run away, the teller asked him if he wouldn't like to use the \$2,000 to open an IRA.

For additional information or if you have any questions, contact, Robert R. Julian, Retirement Planning Consultants, 313 Blackstone Avenue, Ithaca, New York 14850, (607) 255-4405, email: rrj1cornell.edu. Visit our website at retirementplanningconsultants.com Retirement Planning Consultants provides a number of resources designed to help individuals make informed decisions on planning - saving - investing for retirement. We offer unbiased and easy-to-understand information from an impartial outside source. We've been doing that for almost 30 years.

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