



A Guide To Your Retirement Planning - Volume III - Number 11

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: Saving – Investing For Retirement --- A Simple Approach: You Can Do It

The stock market is a matchless information-processing machine, where the participants collectively price shares correctly and instantaneously (Efficient Market Theory -- E.M.T.). Unlike the market that is portrayed in the mutual fund ads and personal-finance magazines, it is not a place where the smartest managers outwit the less smart. Instead, the market is so full of well-trained, well-motivated investors avidly gathering information and acting on it that not even Nobel prize-winners can hope to beat it consistently. Sure, some managers will outpace the market for a few years, but it is impossible to prove that those runs are more than just sheer chance. It's like flipping a coin.

In 1990, the Nobel Prize in Economics, was awarded to Harry Markowitz, Merton Miller and William Sharpe for their contributions to a body of work, based on over 50 years of research, known as Modern Portfolio Theory (MPT).

Larry Swedroe, in his book, *The Only Guide To A Winning Investment Strategy You'll Ever Need*, states that MPT presented every investor with an opportunity to "win the investment game without really trying." Swedroe added that MPT demonstrated that "efforts to beat the market are not only nonproductive, they are highly likely to prove counterproductive because of the expenses and taxes that are generated by the practice of active management."

Swedroe states that the only winners in the game of active management "are the Wall Street firms that generate commissions, the publications that offer 'expert advice' and Uncle Sam, who collects more taxes. MPT

demonstrated that all investors can have a positive investment experience if they adopt the strategy known as passive asset class investing.”

And that (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 9 on page 2 of this newsletter.

“The SEC should turn over a new leaf and dedicate itself at every opportunity to preaching to the public that individual stock picking is a mug’s game -- that indexing and other low-cost, buy-and-hold strategies are a better way to make America’s peerless capital markets work for them.” Holman W. Jenkins, Jr., Agency Interrupted, Therapy for the SEC begins with the "efficient markets" hypothesis. The Wall Street Journal; Jan. 12, 2005

The Low-Down: Beware of Expenses And Fees

You’re probably tired of how I go on and on about the high fees and expenses you pay in your 401(k). But today, I’m going to reinforce this point one more time with an example.

Joe’s 401(k) plan charges him about 3% a year in fees – a bit expensive for his plan. Sally’s 401(k) plan charges her only about 0.25% a year. Now, that might look like “small potatoes” but in the end, the difference is significant.

In this example, Chris Long, a Chicago financial planner states that they both earn \$50,000 a year and they invest over a period of 30 years. At the end of 30 years, Long states that Joe will have about \$870,000 in his expensive 401(k) nest egg while Sally will have \$1.3 million in her inexpensive 401(k) nest egg. Joe gives up close to a half-million dollars simply by overpaying 401(k) expenses and fees.

Hewitt Associates, in their study of benefits decision makers, found that only five of 10 large employers had attempted to calculate the fees associated with their plan. However, now that the Department of Labor is urging employers to insulate their employees from excessive fees, more employers are asking more questions from the organizations that run their plan. The other problem however, is that since so many employers pass along all of the costs of running the plan to the employee, sometimes there is little incentive to take a good look at the costs involved.

Probably not too many employers will start asking questions of the organizations who run their plan until the employees ask the benefits manager questions like --- What are my total fees? How much am I really paying?

Gail Marks Jarvis, who writes a financial column for the Chicago Tribune, says that “since the employer has a legal responsibility to handle 401(k) and 403(b) money wisely, the staff will be bound to take the questions seriously, and get an answer if one is not immediately available.”

However, just in case you think our “example” might look like “small potatoes” --- a small insignificant “half million dollars”

--- just forget that Gail and I suggest that you have a small chat with the benefits manager.

“Remember that every penny you give to a fund company is a penny you don’t get to spend. If your fund invests in bonds that yield 5% but the fund takes 2% for expenses, you’ve lost 40% of your income.” John Waggoner, “Investing”, USA Today

Our 2006 Workshop: Saving – Investing For Retirement -- - A Simple Approach: Simple Portfolio #9: The Couch Potato Portfolios

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. Here is Simple Portfolio #9. You can examine previous portfolios by visiting our web site and checking our previous newsletters ---- www.retirementplanningconsultants.com.

The No-Brainer Portfolios

This simple portfolio is the brainchild of William Bernstein, a financial adviser, columnist and author of the *Intelligent Asset Allocator*. It is called the “No-Brainer Portfolio” because Dr. Bernstein is not only one of the more sophisticated financial analysts around; as a practicing neurologist he has a unique understanding of the workings of the brain. When it comes to investing, however, Bernstein is a no-nonsense, keep-it-simple strategist.

No Brainer Portfolio #1

If over the past 10 or 20 years, you had simply held a portfolio consisting of one quarter each of indexes of large U.S. stocks, small U.S.stocks, foreign stocks and high quality U.S. bonds, you would have beaten over 90 percent of all professional money managers and with considerably less risk.

During a period of 5 years, the Bernstein Portfolio returned 3.52% annually. For the past 10 years 9.15%. For the past 15 years 10.29%. For the past 20 years 11.69%. (12/2003)

No Brainer Portfolio #2 Nine Funds

Fund	Allocation	1-year return	3-year annualized return	5-year annualized return
Vanguard Emerging Markets Stock Index	5%	33.26%	34.08%	20.35%
Vanguard European Stock Index	5%	24.95	23.28	10.43
Vanguard Pacific Stock Index	5%	31.4	25.3	8.71
Vanguard REIT Index	5%	19.23	25.60	18.93
Vanguard Short-Term Investment Grade Index	40%	2.35	2.17	3.71
Vanguard Small Cap Index	5%	13.79	19.76	8.97
Vanguard Small Cap Value Index	10%	12.64	20.92	11.02
Vanguard Total Stock Market Index	15%	9.74	12.77	3.84
Vanguard Value Index	10%	12.34	15.18	4.39
Total portfolio	100%	11.03	12.79	6.97
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.

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“Securities analysts may pull down huge salaries and bonuses, but there’s little evidence that their buy, sell and hold recommendations on big blue chips (stocks) do any better than the S&P 500 index.” Michael Sivy, columnist Money magazine.

--Getting To The Nitty Gritty: Increase Your Social Security Benefits

The best way is to stay on the job. Not a pleasant scenario for some, but it can help. Delaying retirement for a few years can boost your Social Security benefits and reduce the amount you need to save to create sufficient retirement income for life. Consider how a married couple in their early 60s earning \$77,000 per year -- roughly the median pretax income of married households ages 55 to 64 in 2002 -- can cut their savings needs by 40% if they delay taking retirement for four years, until age 66.

The longer you work, the less you'll need to save						
Current salary	Current Salary after taxes	Age You retire	80% of after-tax salary	Annual Social Security payments	Potential income gap to be funded by assets	Assets needed to produce income through annuity
\$77,000	\$58,650	62	\$46,848	\$20,088	\$26,760	\$510,757
\$77,000	\$58,650	66	\$46,848	\$27,648	\$19,200	\$298,380
\$77,000	\$58,650	70	\$46,848	\$38,136	\$8,712	\$298,380

Smart Things To Do: Annuities: Watch Out!!!

In the November 2005 issue of this newsletter, we told you the sad tale of John Migliaccio (74 years old) of Palm Desert, California. He and his wife Carmen wanted financial security in retirement. An insurance agent from Midland National Life Insurance Company urged them to move \$43,000 from their investment account into a tax-deferred annuity. When John died in May 2004, Carmen learned that the payments from the annuity were not scheduled to begin until January 2045 when he would be about 115 years old.

Ruth and Len Mitchell of Columbiana, Ohio went to a “free dinner” and investing seminar where got the hard sell on annuities. Ruth wasn’t happy with the pitch. “They tried to ramrod things down our throats. They talked too fast and in circles. They promised high rates of interest on annuities.” They said “no” but the advisers called them several times at home.

Walter Updegrave, in the September issue of Money magazine, tells us about Tom Donofrio, a 39 year-old father of two, who with the help of a financial adviser transferred money that was in a 401(k) with a previous employer into an IRA rollover account invested in mutual funds.

That was what he thought. What he didn’t understand was that the bulk of his retirement savings --- about \$22,000 actually ended up in a variable annuity, an insurance product that puts your money into a fund-like portfolio but typically carries fees that are much higher (2.8%) than those of funds.

Then there is 73-year old Dorothy Eddy, who attended a free lunch and financial seminar at a Florida restaurant two years ago. Dorothy thought she’d found the perfect place for her retirement savings: an equity-indexed annuity (EIA).

As she says she understood it, it would pay her a sure 7 percent a year, protect her principal against losses and, most important because she needed cash for family and medical expenses, give her ready access to her money.

She decided to invest almost \$156,000, a good portion of her retirement nest egg. “I was earning 3 percent, and this was promising me 7 percent,” says Eddy. “There didn’t seem to be any downside to it.”

Before long, Eddy found --- the downside ---what thousands of other retirees and pre-retirees have discovered: Equity-indexed annuities are hardly the all-gain, no-pain opportunity they seem. In addition, they have attracted the attention of government regulators and class-action litigators. While they can shield you from market setbacks, their hefty fees, confusing features, aggressive sales tactics and many restrictions dramatically dampen their growth potential. Eddy is now involved in a lawsuit against AmerUs.

Updegrave tells us that when Tom Donofrio rolled his money from a 401(k) into an IRA, he found himself on the receiving end of an annuity sales spiel. “It rarely makes sense to put your IRA rollover into an annuity if you’re switching jobs or still investing for a retirement that’s years away. After all, your gains are already sheltered from taxes in an IRA.” “Annuity issuers freely admit that an annuity’s tax benefits are essentially worthless when it’s held inside an IRA.”

Updegrave adds that as emotionally appealing as this assurance may be, its financial value is questionable. “First, there’s the cost - usually 0.5 percent a year or more. Add that to the typical variable annuity’s hefty expenses and then throw in one or two other bells and whistles, and you could end up paying upwards of 3 percent a year.”

You also have the annuity swap where the pitch is that you can trade in your old annuity for a newer model with better investment options and other up-to-date benefits. However, this newer and improved annuity will likely have higher annual charges.

And if you’ve owned your annuity for only a few years, surrender charges probably still apply. Earlier this year in Missouri, for example, regulators issued a cease-and-desist order against an adviser who allegedly switched clients in and out of several annuities, in one case generating surrender charges of more than \$24,000.

Updegrave states that there is one kind of annuity that can be useful in your retirement planning: a lifetime income annuity, also known as a payout or immediate annuity. By investing, say, \$100,000 when you retire at 65, you can create an income that’s guaranteed to last as long as you live.

Deal Breakers	
Keep these problems in mind before moving ahead on annuities.	
Annuity type	The problem
Equity-indexed	High price to get out, bewildering return formulas and caps on how much you can earn
IRA rollover	The guaranteed protection referred to is expensive and almost certainly unnecessary.
Annuity swap	You may face withdrawal penalties and higher fees; new surrender charges kick in.

cnmmoney.com

“Chances are, one of these days someone is going to urge you to buy a retirement investment that sounds too good to be true. If the word annuity come up, be wary of the deal.” Walter Updegrave, senior editor, Money magazine

A Retirement Diary: A Beef With Smart Money Magazine

Back in the February 2006 issue, Smart Money magazine featured “Seven Funds To Buy Now” in their “cover story.” It detailed mutual funds which allow their managers “the freedom to invest in any corner of the market that would do better than average.”

In their October issue, they featured a follow-up story. In it, they state “Since then the S&P 500 has mustered a highly erratic 2.7% gain, while our funds --- unencumbered by restrictions on investing style, sector weightings or company size --- have edged that out with an average 3.7% gain.”

What Smart Money did not tell you in the story is that of the seven funds they featured, only two of them --- a 28% success rate --- beat the “highly erratic 2.7% gain” of the S&P 500 index. Nowhere in the article did they tell us that five of their seven funds did not. Nowhere in the article did they tell us if the funds gained a 3.7% return before or after fees and expenses are deducted. What was the real gain after fees and expenses are deducted from these “actively managed” mutual funds?

Smart Money does acknowledge the fact that “While three of the seven funds we recommended trailed their benchmarks, we haven’t given up on their managers.” They add “Our worst performer, Ariel Appreciation (fund) is run by noted contrarians John Rogers and Charles Bobrinsky. The fund is trailing the S&P 500 by eight percentage points.” However, contrarian manager Bobrinsky states that “The market just hasn’t been rewarding the kinds of companies we invest in. But it will.”

Will it? Who knows besides Bobrinsky? Bobrinsky’s fund had a total return of minus -5.5% vs a gain of 2.7% for the S&P 500 index.

You can flip a coin. Heads it will --- Tails it won’t. Should you invest your money on the basis of a coin flip where you have a 50% chance of being right. You tell me. Are the funds featured by Smart Money --- “Seven Great Funds To Buy Now?” They could be --- but I won’t put my hard earned dollars there.

“The Coffield paradox aims to question the absolute validity of probability in reality. Its reasoning is best represented by a coin-flipping scenario. Suppose you are flipping a coin. The probability of flipping heads is 1/2. The probability of flipping heads twice in a row is 1/4. Now suppose you flip the coin once with a result of heads. If you were to flip the coin again, what would be the probability of flipping heads? Since the first flip will not affect the second, this suggests that the probability is 1/2. However, if you do flip heads again, you will have flipped heads twice in a row, suggesting that the probability of flipping heads is actually 1/4. Both appear to be equally valid, so here is mathematical contradiction”

How Can I: Find Information On Seniors Health Insurance

To help you sort through your health insurance options, you can visit Insure U, a consumer web site developed by the National Association of Insurance Commissioners. Go to --- www.insureuonline.org and click on the “Empty Nesters” tab to access information specifically designed for seniors. Topics include what to consider if you are not yet eligible for Medicare and factors to look at when choosing between traditional Medicare and Medicare Advantage plans.

Building Your Nest Egg: As An Investor, Are You Your Worst Enemy

The research tells us that too many of us are. Test this scenario --- one of the mutual funds in your 401(k) has been losing money for the past three months and you decide to pull the plug and drop it. Pulling the plug will turn your paper loss into a real loss.

Then, you are afraid of losing more money so you will sit on the sidelines until you think the market will recover. And then, by the time the market does recover, you miss out on the early gains of that recovery.

Dalbar, a Boston based financial services firm, has conducted surveys to measure monthly cash flows in and out of mutual funds. What did they find? The typical investor earned an average annual return of 3.9 percent in the past 20 years. In comparison, the S&P 500 index gained an average of 11.9 percent annually. Louis Harvey, president of Dalbar, places a lot of the blame on an aversion to losses. “The aversion to losses means that if the market declines, we tend to withdraw funds. When the market is at its high and becomes euphoric, we invest. Investors certainly lose more because of their own actions than the market.”

May was one of the worst for the S&P 500 index since late 2002. July was rocky too. Now is a good time to review bad investing habits and look at ways to avoid them. What things should you consider?

---Overconfidence: Some people come to believe that bad things can happen--but only to other people. Or if the market goes up, investors forget that it can go down. This can lead them to heavily concentrate their portfolio in one stock or fund. To combat this, choose an asset allocation--a mix of stocks and bonds--geared toward your tolerance for risk and when you'll need the money. Maybe yours is, say, 60 percent stocks and 40 percent bonds. Then stick with it.

--- Lack of diversification: You might have several funds, but if they hold the same type of stocks, you're not diversified. Diversify a stock portfolio, for instance, through a mix of domestic and foreign; growth and value; and large-, small- and mid-cap stocks. Diversification doesn't get you the highest return. But it helps reduce wild swings that could cause you to bolt the market.

--- Market timing: No one has perfected the ability to get in and out of the market at the right time, all the time. Of course, sometimes a stock or fund deserves to be dropped because of some specific underlying problem. But selling off, say, all your large-cap stocks or funds because they have fallen out of favor means you stand a good chance of not owning them if they suddenly recover.

-- Acting on hype: There is so much financial information available from so many sources. Though difficult, try to ignore the headlines and TV commentators screaming at you to buy this, sell that. --- trading too often. Brad Barber, a management professor at the University of California-Davis tells us that through frequent trading and its fees, investors forfeit as much as 1.5 percentage points in annual returns. "You may argue that's not a lot, but if you were offered a percentage point off your mortgage, you would take it immediately." *"He who has a thousand friends has not a friend to spare, and he who has one enemy will meet him everywhere."* Ali ibn-Abi- Talib (602 AD - 661 AD), *A Hundred Sayings*

Sandy The Smart Save: Your House Is Not An ATM Machine

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.

Today, for a bit of background, I thought I would give you a bit of information on where us squirrels live. We build nests called "dreys". They are made of twigs and leaves. The interior is lined with fur, feathers or other soft material for comfort. There are normally two exits in this type of nest, and they're built high in a tree between two strong branches. High enough to provide protection from ground predators, but not too high or the nest will be destroyed by the winds. We also will build a nest, called a "den", in a hollow tree cavity.

The reason I pass along this info is that my Uncle Clem, the ultimate risk taker in investing, told me the other day that he really didn't need to build a large retirement nest egg because his "drey" would be his retirement savings account. So, I got in touch with Amy Houk, who writes for the Wall Street Journal. She says that "your home is not a retirement savings account." "The smartest way to think about home equity is as a cushion – something to tap only if your savings calculations are off or cash runs out."

I said to Amy, "The problem with Uncle Clem and some others in the family is that, because of the rising equity in our homes (dreys) in the past, we seem to think that we don't need to save." Amy said that in a way people are correct in that assumption –your house is one of the biggest assets that you have but you must understand just how it will help you.

I asked Amy if there are situations where home equity could be depended for retirement. Amy said that one is if the homeowner (Uncle Clem) plans on downsizing his or her home. **5**

and putting some of the sale proceeds into more-liquid investments. "Even then, the move could be risky." "The other time home equity can be considered part of retirement savings is when a homeowner decides to take out a reverse mortgage for an income stream, a choice that many planners believe should be a last resort because of the typically high fees it takes to get a reverse mortgage."

I told Amy that another problem is the assumption is that the home is completely paid for when they stop working and in my family that is not the case – they still have mortgages to pay off. Amy said that the problem with Clem and others is that they are "withdrawing equity prematurely." "If that's all you have, or it's a critical part of retirement income, you shouldn't be spending it before you retire."

I said, "Amy, what Clem and others in my family need to understand is that they need a plan and stop all this procrastinating about making contributions to their 401(k). They need to think of their dreys as a place to live in rather than a piggy bank where they can take the money out of." Amy said, "Right on Sandy. I couldn't have said it better myself."

Sandy Cartoon:

Camille: I think banking ads are going overboard.

Sandy: What do you mean?

Camille: I saw an ad last night on TV where the pitch was that you can "borrow money to put in your savings account. Come on in and check out low introductory rates.

Sandy: I wonder if they also throw in a toaster.



Quick Take #1: How To Make Your Nest Egg Last

What do the researchers tell us about how much can you withdraw? Their rule of thumb is ---- if you spend 4% of your money each year, there is a 99% chance it will last 20 years and a 87% chance it will last 30 years. If you spend 6% of your money each year, there is a 75% chance it will last 20 years and a 38% chance it will last 30 years.

Quick Take #2: Long-Term Care Insurance: When To Purchase

Financial – retirement planners are saying that a choppy stock market isn't the only threat to your retirement nest egg. What with nursing home costs running anywhere from \$60,000 to \$100,000 a year, long-term care insurance, has become vital to protecting your financial wealth.

And that is why an increasing number of them are suggesting that you start buying it while you are in your 50s. Why? Because that's when you are in good health and it is relatively inexpensive.

You will find that the comprehensive policies pay up to \$250 a day for nursing care and since nursing costs are likely to keep on going up, the planners say that it's worth paying extra for a policy that automatically adjusts for inflation. The premiums for these policies run around \$3,700 a year for those who buy in at age 50 and \$4,900 for those who start at age 60.

"A wise man knows everything; a shrewd one, everybody."
Anonymous

Stock Market – Wall Street - Investment Humor –

The stock broker had just read the story of Cinderella to his four-year-old daughter for the first time. The little girl was fascinated by the story, especially the part where the pumpkin turns into a golden coach. Suddenly she piped up, "Daddy, when the pumpkin turned into a golden coach, would that be classed as income or a long-term capital gain?"

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.

This newsletter intends to present factual up-to-date, researched information on the topics presented. We cannot make any representation regarding the accuracy of the content or its applicability to your situation. Before any action is taken based upon this information, it is essential that you obtain competent, individual advice from an attorney, accountant, tax adviser or other professional adviser. Information throughout this newsletter, whether stock quotes, charts, articles, or any other statements regarding market or other financial information, is obtained from sources which we, and our suppliers believe reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. No party assumes liability for any loss or damage resulting from errors or omissions based on or use of this material.

Quotable Quotes

- *Investing is always challenging, even when the market is booming. Selecting the top performers is what separates the winners from the pack, whether stocks are flying or sinking. If you have bought a fund for the manager's expertise you presumably expect them to deliver good performance relative to the competition and regardless of market conditions; a manager who blames the stock market effectively is telling you that "It's not a good time to be relying on luck. Chuck Jaffe, Columnist, CBSMarketWatch.com*
- *Better a diamond with a flaw than a pebble without. Confucius, Chinese philosopher and sage, 551-479BC Analects*
- *In the very good times, it seems as if investing is about accepting wealth. You put down your money, almost like planting it in a garden, and watch it grow. But in fact, in good times and bad, investing is really about managing risk and managing your emotions. If you want to be a successful investor, you've got to do at least a decent job at both those tasks. Paul Merriman, Merriman Capital Management*
- *I choose my friends for their good looks, my acquaintances for their good characters, and my enemies for their intellects. A man cannot be too careful in the choice of his enemies. Oscar Wilde 1854 – 1900, an Irish playwright, novelist and poet.*
- *Go confidently in the direction of your dreams! Live the life you've imagined. As you simplify your life, the laws of the universe will be simpler. Henry David Thoreau 1817 – 1872, noted American author and philosopher*
- *The biggest risk facing investors is miscalculating their longevity and being too conservative, thinking once they're retired at 65 they can put everything in short-term instruments such as CDs or money markets. Statistics show you could be 30 or 40 years in retirement, which means a balanced portfolio of stocks, bonds, money markets and CDs is a better approach. Fran Kinniry, a principal in Vanguard's Investment Counseling and Research Group*