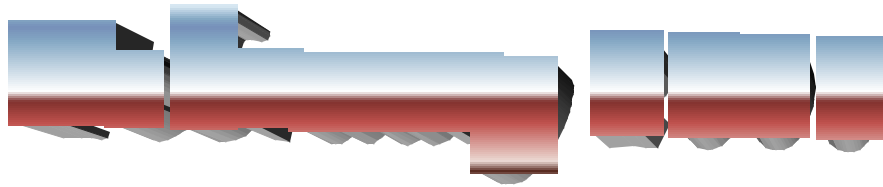


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Your Retirement



A Guide To Your Retirement Planning - Volume III - Number 2

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 Brand New 2006 Workshop: Saving – Investing For Retirement --- A Simple Approach: You Can Do It --- An easy, step-by-step, time-tested process for building your retirement nest egg.

Are you confused, overwhelmed, disappointed with the investment process and don't know where to begin? As you may have discovered, investing isn't all that fun for the average investor. What options do you have?

You can do it on your own. But, how good are you on picking from tens of thousands of stocks, bonds and mutual funds that are available? One financial writer calculated that if you stay up on the news in the press, magazines, online and cable, you'll be exposed to at least 42,000 "tips" every year from pundits and ads. How do you sift through all of that confusing information?

Or you can rely on the "experts" --- the managers of actively managed mutual funds who will tell you that you "can beat the market." What is their track record? Through the end of 2004, the S&P 500 Index (passively managed mutual funds) consistently outperformed 98% of mutual fund managers over the past three years and 97% over the past 10 years.

What do you, the average investor, need to know about investing for retirement? There are no investment gurus. A magic formula that will help you to build your nest egg does not exist.

History shows us that the experts that you see on TV or read about in print cannot produce above-average returns on a regular basis. But they will charge high fees and expenses that will under perform a totally unmanaged index mutual fund --- a fund that charges low expenses and just buys and holds all or a representative sample of all of the stocks in a broad stock market index.

Investing does not have to be complicated. You don't have to be an investing genius or a mutual fund picking wizard. You don't have to select from 14,000 mutual funds that are available. Index investing simplifies the process. Our new workshop will show you how.

You'll find additional information on this new workshop on page 2 of this newsletter.

What You Should Know: Take A Lump Sum Payment Or An Annuity?

Ted Benna, the man who created the 401(k) back in 1981, worries that the 77 million baby boomers who begin to retire in 2011 may not have enough income in retirement. "Making sure the retirees can manage their money into an income stream is going to be a forever issue."

According to Hewitt Associates, about 20% of companies now offer annuities (that can provide an income stream) as a form of payment for final distributions. That is up from 17 % in 2003. When available, 6% elected an annuity, which is up from 2% in 2003. Ninety-four percent take lump sum distributions when they retire.

Dallas Salisbury, president of the Employee Benefit Research Institute, says "Employers should educate workers about the benefits of sweeping their savings into an annuity and taking out money over a course of several years to make sure it lasts."

Michael Weddell, retirement consultant at Watson Wyatt Worldwide, states, "If you give participants a choice, they will take lump-sums every time." However, some organizations are taking on this issue.

IBM has introduced an online service. It allows employees to plug in their information and receive price quotes for fixed annuities. Benna predicts that more companies will follow IBM's lead. "When big companies do something, others tend to follow."

Motorola and BHP Billiton, an Australian mining resources company, are starting to discuss adding annuity options to their menus. Motorola's concern about offering an annuity is that employees will think that the company is recommending that they use it and thus could be held liable if an employee loses money in the long run.

BHP is addressing the retirement income issue through quarterly educational sessions that include an explanation of what annuities are, but not recommendations of specific products.

One of the problems that 401(k) plan providers will have to overcome is the stigma that comes with the notion of annuities as being high-cost, bad investments. Kelli Hueler, president of Huler Cos. says, "Annuities --- is a very confusing and scary word."

How about you? Will you need an annuity that provides a steady stream of income in retirement --- or will you take a lump-sum distribution and develop your own strategy on how those funds will provide your income in retirement?

"The main purpose of the stock market is to make fools of as many men as possible." Bernard Baruch 1870– 1965, American financier, stock market and commodities speculator, statesman

This Month's Question: Why Can't We Buy Low And Sell High

Wondering how you can safely withdraw money for your accounts in retirement? One site you can check on the internet is vanguard.com --- click on Personal Investors and then click on Planning and Education.

Our Brand New 2006 Workshop: "Saving – Investing For Retirement --- A Simple Approach: You Can Do It --- An easy, step-by-step-, time-tested process for building your retirement nest egg.

In our workshop we will look at and discuss 10 simple, lazy-low-maintenance 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.

Portfolio #1 is how pension funds of large U.S. companies have traditionally invested most of their money. Their model is to typically allocate 60% to stocks and 40% to bonds – similar to the approach institutional investors and pension funds invest their money.

Why? The returns from this allocation are strong enough and the risks tame enough so that it can meet the long term needs of most investors. This approach utilizes two index funds.

How has it performed? *Portfolio #1* has an annualized return of 10.4%. *Portfolio #2* has produced an annualized return of 10.6 %. *Portfolio #3* has produced an annualized return of 11.8%. *Portfolio #4* has produced an annualized return of 12.7% and *Portfolio #5* has produced an annualized return of 13.0%. (January 1973 – December 2004.)

We all also look at 5 other portfolios designed to build a retirement nest egg. In addition, we will examine and discuss such questions as --- What is your greatest fear about retirement? How long will you live – how long should you plan for? How much money you will need to live on in retirement? What will you need in your first year? Where will the money come from? What is your personal tolerance for risk? How do you – should you make your investment decisions?

Talk to the people in your benefits – compensation – HR office about this 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. We think you, the average investor, can gain a great deal from participating in this workshop.

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Getting To The Nitty-Gritty: The Role Of A Financial Adviser

Burton, Malkiel, Professor of Economics at Princeton University, has been an outspoken advocate of index investing with mutual funds. In the eighth edition of his classic book, *A Random Walk Down Wall Street*, first published in 1973, Malkiel argues that stocks are priced so efficiently that no professional can exploit temporarily mispriced stocks with any consistency. "A blindfolded chimpanzee throwing darts at The Wall Street Journal can select a portfolio that performs as well as those managed by the experts" --- love that quote.

Another great quote from Malkiel --- "Just throw a towel over the stock pages and go buy as broad-based an index fund as you can find." In an interview in the April 2005 edition the Journal of Financial Planning, Malkiel states, "This might not be what financial advisers like to hear."

Malkiel adds however that advisers and planners play a critically important role in individuals' lives --- in particular, keeping people from harming themselves with critical mistakes.

Malkiel was asked --- “You believe that your book’s message is enduring and that there’s proof of it. Why do so many people still not get it”? Malkiel says, “Because most individuals get ‘sold’ financial products. Brokers and advisors don’t make any money if they put you in a Vanguard index fund, but they **do get** paid for selling you a hot, actively managed fund. That’s why only 10 percent of individual money is indexed. But 25 percent of institutional money (pension funds) is indexed, which I find extremely interesting. People ask me if I’m disappointed that after 30 years of talking about this, only 25 percent of institutional is indexed. I prefer to look at that as the glass being half-full, not half empty. I think 25 percent is great.”

How can advisors help? Malkiel says that “Their biggest role is to put together a portfolio of asset classes that meets the age and risk tolerance needs of each individual. This is critical and that’s what advisors should do. What I don’t think they should be doing is moving investors from fund to fund. Nor do I think they can pick individual stocks particularly well. They’re extremely valuable to investors for age or situation specific advice and for a lot of handholding. And one of the absolutely most important roles they can play is to prevent people from making horrendous mistakes which is a major part of successful investing.”

So, what do the institutional investors (pension funds) who place 25% or more of their money in indexes know that so many of us average investors don’t know?

“Most fund managers don’t beat the S&P 500. Or if they do, very few can keep doing it for long spells. When bear markets wreak their periodic havoc, even fewer funds remain money makers.” Forbes Magazine, Feb 4, 2002

A Retirement Diary: Get In Shape!!!

Back in December, the National Center for Health Statistics reported that U.S. life expectancy hit another all-time high --- 77.6 years. But, the march of medical progress has taken on a worrisome turn: Half of Americans in the 55 – 64 age group, which includes the oldest of the baby-boomers, have high blood pressure and two in five are obese.

I was thinking about that report when I came across two very different points of view on getting in shape (physically) for retirement. The first piece of advice came from the Financial Planning Association. “Get in shape – physically: It may be strange to hear health advice tied to your financial wellbeing, but it should be one of the first things you consider. That’s because the numbers on a bathroom scale, blood pressure monitor or cholesterol report can dramatically affect the cost of your healthcare and insurance premiums going into retirement. You’ll find that pre-existing conditions can boost your premiums – or possibly deny you coverage. That’s a very ugly surprise going into the years when you’re going to need healthcare coverage the most.”

The second piece of advice came from an article by Buck Hartzell entitled “Your Retirement Disaster – Guaranteed!” Buck says that if you “want a truly unhappy and unhealthy retirement, follow these precepts:

1. Don’t exercise. Exercise sends a constant “grow” message to your body to get stronger and more

limber. By not exercising, your nerves will decay and your joints will wear out.

2. Eat junk. Indulge yourself with french fries, fast food, and delicious Krispy Kreme donuts. And *don’t* ignore trans-fatty acids, high-fructose corn syrup, nicotine, and alcohol each and every day.
3. Disconnect and wither. Close up shop and narrow your social circles. The key to an unsuccessful retirement is a life of isolation.”

Same message --- different points of view. Which one works for you? Is that bicycle or treadmill getting a good workout in your household?

“I joined a health club last year, spent about \$400. Haven’t lost a pound. Apparently you have to show up.” Anonymous

How Can I: Find Out How Much My Social Security Benefits Will Be Reduced If I Take Them Early?

EARLY PAYOUT PENALTY		
The age at which you can take full Social Security retirement benefits, and how much a \$1,000 monthly benefit would be reduced to if you started taking benefits at 62:		
Birth year	Age	Benefit
1937 ¹	65	\$800
1938	65 and 2 months	\$791
1939	65 and 4 months	\$783
1940	65 and 6 months	\$775
1941	65 and 8 months	\$766
1942	65 and 10 months	\$758
1943-54	66	\$750
1955	66 and 2 months	\$741
1956	66 and 4 months	\$733
1957	66 and 6 months	\$725
1958	66 and 8 months	\$716
1959	66 and 10 months	\$708
1960 ²	67	\$700

1 — 1937 or earlier, 2 — 1960 and later
Source: Social Security Administration

Building Your Nest Egg: Compounding --- The Eight Wonder Of The World

Why is compounding “The eight wonder of the world?” He may not have been an economist but Albert Einstein is reported to have made that claim. If you are a long-term investor, like most 401(k) investors, and you are worrying about finding that red-hot mutual fund that will spike your investments, Bill Schultheis, author of *The Coffeehouse Investor*, says that “you are ignoring the biggest piece of the investment pie --- *compounding* --- and it is a piece of the pie you can’t afford to ignore.”

Why? Schultheis says that from 1975 to 2004, a \$10,000 investment in the stock market would have grown, with dividends reinvested to \$474,659. “Of that \$464,659 increase, 40 percent was due to the price of the underlying common stocks going up in price, and 60 percent was due to the reinvestment of dividends.”

In the investment world, a good number of companies pay out some of their profits each quarter to their shareholders; it is called a dividend. You have the option of taking a dividend check and spend it or you can reinvest it. You buy more shares of that stock or mutual fund. This is called dividend reinvestment.

Schultheis says, “When we reinvest our dividends instead of spending them, we are able to earn dividends on our original dividends. Ideally, we turn around and reinvest those dividends in order to earn more dividends. All this stuff about earning dividends off dividends off dividends is called compounding. Most companies increase their dividends each year, so, as an added bonus, the money you compound is constantly increasing.”

Schultheis adds that he shares this largest piece of the pie story with his readers to tell the story “the smallest piece of the pie is where all the action’s at.”

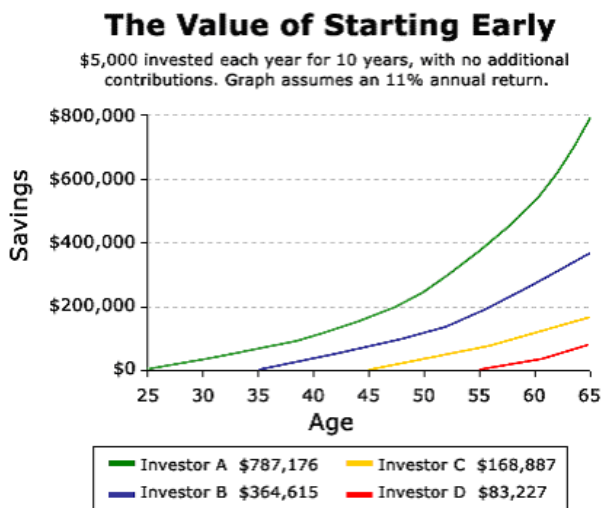
“A decade ago, I really did believe that the average investor could do it himself. After all, the flesh was willing, the vehicles were available, and the math wasn’t that hard. I was wrong. Having emailed and spoken to thousands of investors over the years, I’ve come to the sad conclusion that only a tiny minority, at most one percent, are capable of pulling it off. Heck, if [Helen Young Hayes](#), [Robert Sanborn](#), [Julian Robertson](#), and the nation’s largest pension funds can’t get it right, what chance does John Q. Investor have?”

William Bernstein, "The Probability of Success", stock market historian, scholar, and strategist

Interesting Perspective: Why Should You Invest Early In Your Career?

Undoubtedly, you have heard ‘the early bird gets the worm.’ And this also holds true with investing to build your retirement nest egg. One of the most significant things you can do is to behave like the ‘early bird’.

Sure, there are a lot of factors that will influence the results of your investments but perhaps the #1 factor is starting early in your career. Take a look at this chart that was developed by the folks at motleyfool.com.



As you see, even though each investor invested the same amount of money, there is a great deal of difference in the amount of money they have accumulated. Investor A started at 25 years investing \$5,000 a year (about \$100 a week) and stopped when she was 35. She never contributed one additional cent and she did not withdraw any money. She left the account alone.

Investor B stalled --- he didn’t start until he was 35 years old and he then invested \$5,000 a year and stopped when he was 45. Take a look at what he accumulated. Investor A has almost twice as much in her nest egg --- \$422,567 more than investor B.

Investor C stalled longer --- he started at 45 and invested \$5,000 a year and stopped at 55. Investor A has \$618,289 more than investor C.

Investor D started at 55 and invested \$5,000 a year and stopped at 65. Investor A has \$703,949 more than investor D.

What is remarkable about this scenario is not only the fact that the early investor (bird) builds the largest nest egg with the same amount of money invested as the other three---but also that, as Motley Fool points out, the three things that you completely control, have a very sizable impact of the size of your nest egg. What are the three factors? 1) how much you invest. 2) the rate of return you earn on your investments. 3) the number of years those investments have to grow (compounding).

And, what else is remarkable? Lazy – low maintenance index investing could be the easiest approach to making this happen. Why? It just happens that average annual returns from 1926 – 2003 (77 years including bull and bear markets) show that the S&P 500 Index has returned about 11% a year ----which just happens to be the return utilized in this scenario. How could it get any easier?

“Wall Street people learn nothing and forget everything.”

Benjamin Graham 1894 – 1976, Influential economist and "the father of value investing”

What Ahead: If I invest \$1-A-Day?

With the help of a savings calculator you can find on the internet, you can see what happens to your money when your start at an early age, save regularly and then let compounding perform its magic.

What happens when you invest \$1 a day for 30 years and obtain an annual return of 8%? Your final balance will be \$45,008. You will have invested a total of \$10,800 and your interest earned is \$34,208.

What happens when you invest \$1 a day for 30 years and obtain an annual return of 11% --- the average annual return from stocks over the past 70 years or so? Your final balance will be \$84,906. You will have invested a total of \$10,800 and your interest earned is \$74,106.

One of the latest surveys from Hewitt Associates indicates that 30% of eligible employees do not participate in their employer sponsored 401(k) plan. The results for younger workers (under the age of 30) is even worse. Almost half (46%) of that group do not participate.

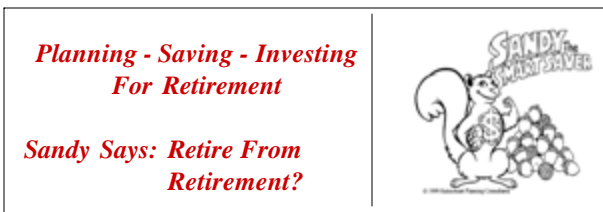
No money saved plus no money invested equals no money compounding which equals no money for retirement.

"If you ask five experts where to invest, there will be six answers; the five expert opinions, plus the right one."

Jonathan Clements, Wall Street Journal Columnist

Sandy The Smart Saver: Alternative Investments? Be Careful!!!!

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.



My wife Camille can sometimes be difficult to understand. And I am sure she thinks that at times I speak in a different language.

Camille has her own 401(k) down at the software company that she works for --- AcornSoft.

In the late 1990's she loved stocks. What was not to love back then? All you had to do was buy it and it went up. Hey, in that great bull market, the S&P 500 Index Fund returned an average of 29% a year. Some hi tech stocks doubled or tripled that figure.

And Camille was a part of that action. She loved tech. The more tech funds increased, the happier she became. I told her she was over exposed in one sector. And she said, "I'll compare my 401(k) statement with yours anytime." I knew she had me there because I'm a plain old vanilla index investor.

In some cases, she was getting 50%+ returns while I was only getting about 20 to 30%.

However, the year 2000 appeared on the scene. And Camille's huge gains started to disappear. She said, "Sandy, my investments turned out to be weapons of mass destruction." I said, "I really don't know anything about weapons of mass destruction but I'll compare my 401(k) statement with yours anytime." A frying pan flew over my head as she said, "Buster (that's what she calls me when she is irritated), I thought the object of investing is to make money---not lose it at a slower rate."

I asked Camille what she was going to do. She said that she was not going to invest in stocks any longer. "You can't make any money there. I'm putting my money in treasury bonds. At least, you can make money there --- once burned, twice shy."

I then checked with my friend Eric Gelman who writes for Money magazine, for his take on Camille's strategy. Eric said that 10 year treasury bonds were paying 3.9% and you will pay a tax on that. "If you're in the 30% bracket, your annual yield falls to 2.7%. Inflation has averaged about 2.5% in recent years---low but still enough to reduce your 'real' or after-inflation yield to 0.2%." He concluded the conversation by saying, "So your money will be safe in treasuries---but all it will do is sit there."

I think a lot of people feel just like Camille. They really don't want to move out of stock funds but they cannot stand the pain of opening up the envelope to find out you are losing money. The U.S. bear market of 2000 - 2002 was one of the worst bear markets in our history. But, that bear followed one of the best bull markets in recent history.

I am sure that some day Camille will get back into stock funds. She, like many others, will wait for signs that the market is moving into positive territory. The problem that she and many others will have is that no one knows when that big run will happen. Every month or so since April 2000, I have heard the experts predict a big run up. Some day, one of these experts will be right and he/she will tell you so.

What to do? I'll close by saying what Eric Gelman told me---"Stocks are always risky---always have been, always will be---but they also offer potential growth." And let me add that growth is what Camille and I and you will need to build our retirement nest eggs. More than one investment guru has said---"Sometimes, the right thing to do is to do nothing." But then others, like my speculating brother Albert would say ---"Nothing ventured, nothing gained."

"Only one thing is more powerful than learning from experience, and that is not learning from experience."
Sir John Templeton, one of the world's most successful investors.

Sandy Cartoon:

Sandy: I'm a little worried about our broker.

Wife Camille: Why?

Sandy: The other day when I was meeting with him, I asked "what do I have to do to change the address on my account" Without even looking up he replied, "You have to move."

Wife Camille: Chalk up one correct response from the broker!!



One of the problems with placing your money in a conservative option like money market funds is that historically the returns for money market funds have been lower than for either bond or stock funds. That's why "inflation risk" — the risk that inflation will outpace and erode investment returns over time — can be a potential concern for investors in money market funds.

"Never invest in anything that eats or needs painting." Billy Rose 1899 – 1966, theatrical showman.

QuickTake: Where And How Do You Diversify Your Assets?

Millions of us are depending on our 401(k) to build a nest egg that will support us through our retirement years. But too many studies show that we don't make the most out of our 401(k). So, how can we do a better job?

For starters, we could place our eggs in more than one basket. One study shows that despite having 14 – 18 choices of investment options, many of us only choose one. One in four (25%) investors invest in one single conservative option --- usually a single conservative money market or a stable value fund.

Money market funds are considered to be safer than other investments like stocks. Long term average returns on money market funds tends to be less than long term average returns on riskier investments. Over long periods of time, inflation can eat away at your returns.

If your main goal is safety (a low chance of losing money) and/or income, a stable value fund is a compelling choice. These funds are generally most suitable for investors approaching retirement, or already there. But they may also be appropriate as an alternative to cash for younger investors seeking to reduce the overall risk of their portfolios.

Placing your 401(k) retirement eggs in different baskets like stocks and bonds will not guarantee profits nor will it prevent losses. But it will limit the losses and increase the upside potential for building your total retirement nest egg. The purpose of investing in more than one mutual fund is to build a diversified investment mix of stocks, bonds and cash type savings that matches your tolerance for risk.

Stock Market –Wall Street -- Investment Humor

A young college accounting major graduate applied for her first full-time job. The prospective employer asked, "What starting salary are you looking for?" The young grad replied, "Around \$100,000 a year, depending on your benefits package."

The prospective employer replied, "Well, how does this sound? Six weeks annual leave, 24% superannuation, paid expenses to overseas conferences and meetings every year, paid home telephone bills, a company car, usually a Mercedes convertible every year."

The young grad quickly sprang to her feet but tried not to look excited. "Wow. Are you kidding?" The prospective employer replied, "Yeah, I am kidding. Those are the packages that are only offered by Wall Street investment firms."

Quotable Quotes

- *"It is unwise to pay too much but it's worse to pay too little. When you pay too much, you lose a little money -- that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot --- it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run. And if you do, you will have enough money to pay for something better."*
- *John Ruskin, 1819 - 1900, French author, poet and artist.*
- *"My problem lies in reconciling my gross habits with my net income."*
- *Errol Flynn 1909 – 1959, Actor -- most famous for his romantic swashbuckler roles*
- *"Too many people overvalue what they are not and undervalue what they are."*
- *Malcolm Forbes 1917 – 1990, Publisher of Forbes Magazine*
- *"The only thing more expensive than education is ignorance."*
- *Benjamin Franklin 1706 – 1757, scientist, inventor, statesman, printer, philosopher, musician and economist.*
- *"Americans adore me and will go on adoring me until I say something nice about them." George Bernard Shaw 1856 – 1950, [Irish playwright](#) and winner of the [Nobel Prize for Literature in 1925](#).*
- *"People who buy stocks when they get bonuses and sell them when the roof starts to leak are entrusting their investment decisions to their roofs."*
- *Andrew Tobias "The Only Investment Guide You'll Ever Need"*

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. Our "Planning – Saving – Investing For Retirement" workshops have helped thousands of individuals.

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