

SPECIAL REPORT

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Telling You What Wall Street Doesn't Want You To Know

STRETTALKADVISORS

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THESE ARE ARTICLES THAT WILL ADDRESS INVESTING STRATEGIES, UNCOVER TRUTHS ABOUT MONEY MANAGEMENT AND HELP GUIDE YOU THROUGH THE TRAPS AND PITFALLS OF PLANNING AND SAVING FOR RETIREMENT.

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Recently, John Mauldin of Frontlinethoughts.com, wrote a really great piece on retirement expectations and thought it was something worth sharing with you.

***"The New Retirement Model** by John Mauldin, Frontlinethoughts.com*

Merrill Lynch released a new survey a few weeks ago called the New Retirement Survey, wherein they polled 3,448 baby boomers, both from the general population and the more affluent segment about their views on retirement. I'm going to spend a few pages summarizing the survey, and highlighting some of the more interesting points. I should note that the survey was done for Merrill Lynch by gerontologist Dr. Ken Dychtwald, who is the president of Age Wave with the help of Harris Interactive. I must say that I thought it was a very thoughtful and well put together survey.

The survey reveals that baby boomers plan an unexpected approach to retirement in anticipation of increased life spans, labor demographics and (what I perceive as a lack of) financial preparedness. Interestingly less than 1/5 of baby boomers plan to stop working for pay. 40% expect to cycle between work and leisure; another 16% plan to work part-time and an energetic 13% plan to start their own business. 6% plan to continue to work full-time.

That is a long way from the model of our parents and grandparents, who more or less expected to retire from work. Interestingly, of those who expected to continue working, 56% of them said that they intended to pursue a different line of work.

Not having enough money was only fourth on a list of fears about the future. Number one on the list was being unable to afford health insurance, with over half of those responding worried about health insurance. Right after that was a major illness and going to a nursing home.

Money Can Buy Happiness

The survey broke the respondents into two groups. Those who were very or fairly well prepared for retirement and those who are somewhat or not prepared. Those who are more financially well-off were twice as likely to be looking forward to retirement, 70% more likely to be optimistic about the future and three times as likely to describe themselves as successful. Coincidentally, they expected to live longer, and were happier.

Those with less money were twice as likely to be stressed out; 50% more likely to worry about health care; much more worried about losing their sex drive and three times more worried about whether or not they would have enough money. Evidently, money can buy some relative amount of happiness, at least among the broad population.

The United States is currently in a great debate about Social Security. We are basically ignoring the far larger and more contentious issue of Medicare, and this survey tells us why. When asked the question, "Do you believe that you and every member of your generation are entitled to the full benefits of each of these programs?"

- 89% of boomers believe that they are entitled to Medicare.
- Social Security was only slightly less at 88% and senior discounts scored 85%.
- 78% believe that we are entitled to prescription drug coverage.

The Republicans have offered a plan whereby nothing changes for the baby boomer generation, recognizing that trying to change the benefits for those over 55 is a nonstarter politically. Given the serious anxiety about health care among the boomer generation, when we do get around to having to deal with Medicare the choices are going to be few and difficult. But there is some consensus about what those choices would and would not be.

72% of respondents favored reducing entitlement levels of those who are financially well-off. 63% opposed having everyone receive a little less in the way of entitlements and 65% opposed raising the age of eligibility to reflect higher life expectancies.

Unrealistic Retirement Expectations

Those were pretty much the general conclusions. I've found some of the actual survey questions and responses to be very interesting.

- 42% of baby boomers do not know how much money they will for a comfortable retirement.
- 60% had less than \$100,000 of total savings other than their home, and;
- 46% had less than 50,000.
- Of course 7% were not sure how much they had saved and 12% decline to answer, so it would be a reasonable assumption to think that **70% had less than \$100,000.**
- 26% felt they would need between \$25,000 and \$50,000 annual income to be comfortable in retirement, and another 27% would need as much as 75,000. (23% were not sure what they would need -- so much for financial planning.).

Let's look at that last group. To generate \$75,000 of income, with a reasonable degree of safety and adding enough to principal to be able to take care of the effects of inflation, **you need a portfolio worth about \$1.5 million**, give or take \$100,000.

- Only 2% of the respondents said they had as much as one million.
- Only 3% had more than \$500,000 with another 5% having more than \$250,000.
- Less than 10% of the boomer generation had more than \$250,000;
- Yet 70% said they would need more than \$25,000 annual income to live comfortably.

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Even subtracting for Social Security and other pensions, there are going to be a lot of baby boomers who are going to be disappointed about their retirement if they have to live off their savings. **Thus, less than 20% of us expect to be able to enter retirement without working for pay again.**

Nevertheless, we are an optimistic lot.

We as boomers like to think of ourselves as a generation that defies categories, yet we sometimes fit into them so well. Dr. Ken Dychtwald broke the boomer generation into five clear "profiles of boomers and their likely retirement scenarios emerged. These profiles provided further insight as to what the "next stage" looks like for these boomer groupings; the personal, societal, workforce and economic implications of their perspective. The five distinct and different boomer segments are: the "Empowered Trailblazers," the "Wealth-Builders," the "Leisure Lifers," the "Anxious Idealists," and the "Stretched & Stressed." "

The next few paragraphs are direct quotes and descriptions for these five groups from the survey. It might be interesting to see into which groups you fit.

"For the **Empowered Trailblazers (18% of boomers)**, retirement will be a well- rounded, empowered and liberated period of their lives. Rather than spending their retirement in passive rest and relaxation, they will be traveling, exercising, taking educational classes, spending time with family and friends and embarking in new directions. Open to new ideas, retirement will provide an opportunity to widen, not narrow, their horizons. Generous with their resources, they plan on contributing time and money to social causes and charities. 68% are looking forward to next phase. More than half say 'self-confidence' and "open- mindedness" completely describes them. 90% aspire to work, 67% plan to volunteer, and 79% plan to travel.

"**The Wealth Builders (31% of boomers)** are fueled by their desire for material success and security. For them, retirement will center around continued work and the achievement (and enjoyment) of financial success and security. They are the most likely of all groups to define themselves as workaholics and are less likely to say they want to stop working for pay in the next phase. About half of this group would say they are primarily driven by their own personal financial gain, while the other half is working to achieve financial security and stability for their immediate family. In fact, they are the most likely of all boomers to describe themselves as family oriented, and in the next phase they plan to reap the benefits of their hard work by spending more with their spouse or partner, children, and grandchildren. 79% plan to work, but only 28% say a sense of self-worth or identity is a very important reason to keep working - it's the money that matters.

"**Anxious Idealists (20% of Boomers)** see their retirement years both as a time for new directions and better work/life balance and as an opportunity to give even more of their time, skills and money to worthwhile causes. They may not have a lot of assets, but they are the most likely to say it's important to them to leave a significant amount of money to their family and to charitable organizations. However, because throughout their lives, they have not tended to focus on practical matters, they realize that they haven't put away as much money as they should, and their lack of money is a serious and growing source of worry and fear. 85% believe that it costs too much to retire.

"When asked what they are looking forward to, the **Leisure Lifers (13% of Boomers)** are the most likely to list simplifying their lives and having years of full time relaxation and play among their top goals. Work is definitely not a priority for them - and a large percentage never enjoyed their careers or jobs.

They are the most likely to look forward to stopping work for pay completely and permanently, and the sooner the better. They are more likely to say they will retire by their early 50s. In fact, half of them are retired already. With low

levels of income and low levels of savings, if they were to anticipate serious financial difficulties in the next phase, they are the least likely to say they would go back to work to try to make up for the shortfall. Instead, they are counting on government entitlements and their savings to ensure a life of leisure in the next phase. 78% are looking forward to having more time for rest and relaxation, and 71% are looking forward to reducing stress. 94% feel that they and every member of their generation are entitled to full benefits from social security.

"The Stretched and Stressed (18% of Boomers) are the least likely to describe themselves as successful, self-empowered or optimistic about the future. They are on a bad path and they know it. During the next stage, they will continue to work, not because they want to, but because they will have to. Of all boomers, they have the highest unemployment levels, have earned the lowest levels of income throughout their lives and have taken least advantage of available guidance or pension opportunities. There isn't much they are looking forward to - they are least likely to look forward to spending time with their spouse, most likely to think financial issues and where to live will be major sources of disagreement, and most likely to think they and their spouses will be very unhappy in the next phase. Only 9% are looking forward to next phase, and they expect lowest levels of happiness (5.8 out of 10). They expect to live the shortest - only until age 77."

Automatic Wealth

Looking at the data, it's easy to come away with the idea that a substantial portion of my generation is living in denial or has not planned or saved for retirement. But it is also true that a significant portion has done very well and will be able to retire in comfort. What's the difference? It's not necessarily education or genetics or luck, although these don't hurt. It has more to do with hard work, perseverance and a lifestyle that allows for significant savings.

When someone writes to me asking how they can make a lot of money, what they're really asking me, as a supposed expert in investing, is **"What are the secret investing techniques that the wealthy know that I don't?"**

And now I have to burst a lot of bubbles. **There are no secret investing techniques that will make you wealthy. The not-so-secret answer is to save as much as you can and compound it as safely as you can over time, and start when you are young.**

The reality is that 80% of mutual funds managed by professionals don't beat their respective indexes. Very few managers have consistently provided 15-20% annualized returns over a decade of time, which is a remarkable achievement.

Investing is about managing your assets in such a way as to have them grow and compound. That implies you have assets to begin with. This means that saving is more important than investing in the process of accumulating wealth.

I know, I know, there are many examples of people who have in fact gotten rich investing. They found Warren Buffett at the beginning of his career or invested a significant portion of their assets in Microsoft in 1982. If you start with 10,000 investors, it is quite likely that you'll find 100 who have become wealthy simply from the process of investing. As Nassim Taleb noted in his brilliant book "Fooled by Randomness," that is no more than you would expect simply from random events.

People do indeed become rich by buying a two dollar lottery ticket. It happens every month. It just doesn't happen to very many people.

People who get rich by random investing often resent it when I suggest that they were lucky. I mean this as no disrespect. As my less-than-sainted Dad often said, "I would rather be lucky than good." But for everyone who chose Microsoft, there

were a lot of who also chose Wang. Both investors did their homework, and initially, it looked like they were both going to be successful. Things just worked out differently.

Those who invested in Wang simply saw it is bad luck. Those who invested in Microsoft believed in their own skill. But history shows us that it is not a very reproducible skill. If it truly was a skill then such a person would be choosing one Microsoft after another. And that happens very rarely.

There are some 70,000 investors who trade a hypothetical \$1 million at the web site **www.marketocracy.com** run by California investor Ken Kam. Only 2% have records of beating the S&P both long-term and monthly. Kam picks the top 100 managers to actually run a fund. However, last year, the fund lost 4% while the S&P 500 gained 11%. It's a tough world out there.

In the very important book, "The Millionaire Next Door," one of the things that is quite common among millionaires is that they own their own business. **For 98% of the people who read this letter, investing in a passive manner is not the primary way to get rich.** You will have to do something in addition to investing if you want to be able to retire wealthy."

The Eight Habits of Wealthy People

If you want to be wealthy – the best avenue to get there is to emulate the habits of wealthy people.

1. Wealthy people work hard.
2. Wealthy people are good at what they do.
3. Wealthy people have multiple streams of income.
4. Wealthy people live in (relatively) inexpensive homes.
5. Wealthy people are moderate in spending.
6. Wealthy people are extraordinary at saving.
7. Wealthy people pay themselves first.
8. Wealthy people count their money.

For more about how the wealthy invest and manage risk read the article entitled ["Invest Like Smart Money"](#) at [Streetworklive.com](#).

STREETTALK ADVISORS

What makes us different?

It's really pretty simple. We believe that managing risk is the key to long term success. Conserve the principal and the rest will take care of itself.

Risk = Loss

Seems like a simple concept – yet most people take way too much risk in their portfolio which is fine as long as the market goes up. The problem comes when it doesn't.

Managed Risk = Returns

By applying some simple risk management to a portfolio of assets the potential for large draw downs of capital is reduced thereby allowing the portfolio to accumulate returns over time.

Total Return Investing

We believe that portfolio should be designed for more than just capital appreciation. There are times when markets do not rise. During those periods we want income from dividends and interest to be supporting the portfolio.

If you are ready for something different the you are ready for common sense approach to investing.

Get Started Today

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