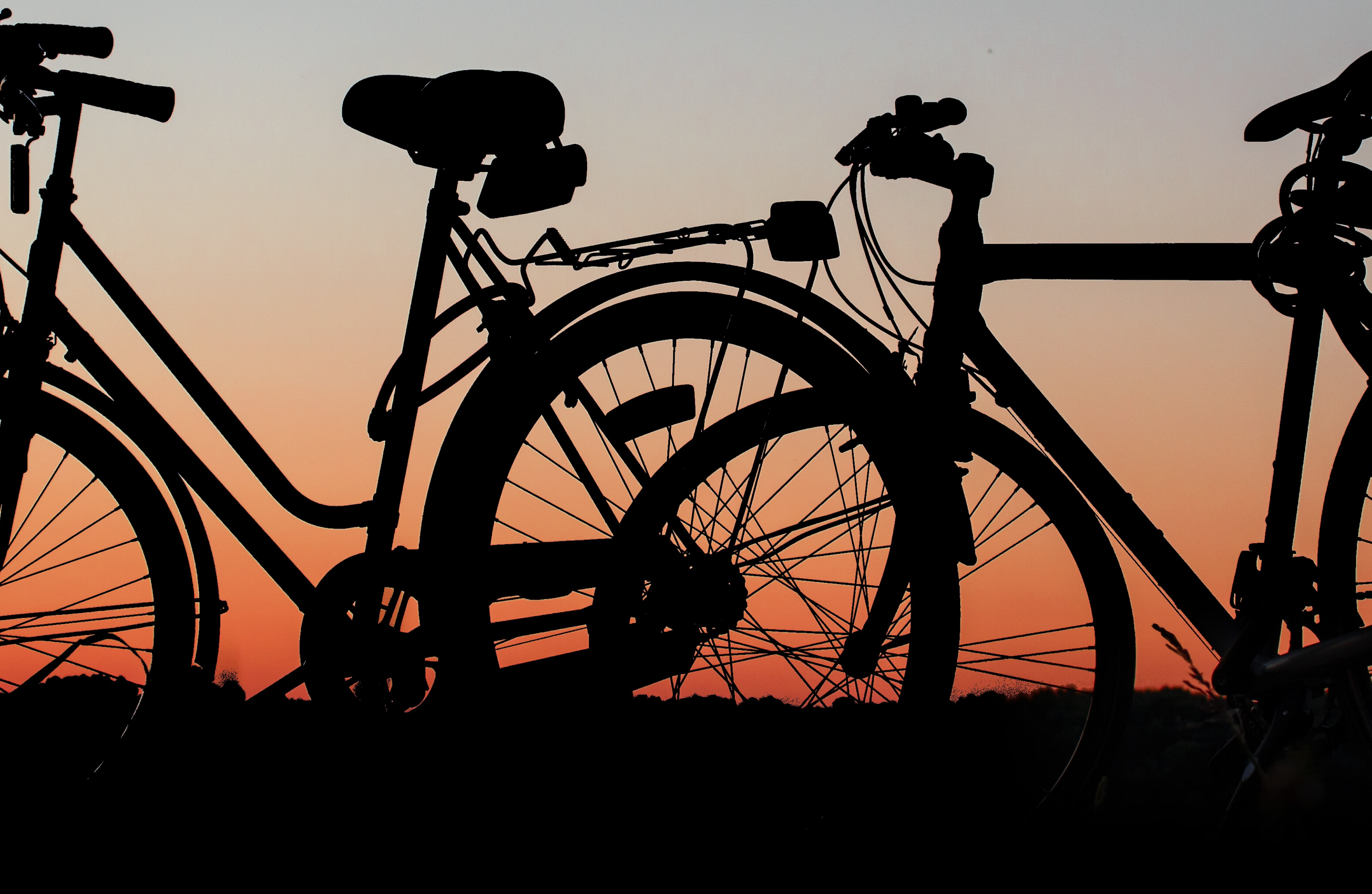
Retirement Roadblocks



THE RETIREMENT GROUP LLC
PARTNERS IN RETIREMENT

TABLE OF CONTENTS

01 INTRODUCTION

02 1-2

03 3-4

04 5-6

05 7-8

06 9-10

07 SOURCES/DISCLAIMER

08 ABOUT THE RETIREMENT GROUP

Introduction

Investing is difficult and yet, we can make it harder still. We can choose to encourage people with little to no training to try to do it for themselves. Sadly, many people get caught in the fear/greed cycle, and follow the crowd in the buying/selling frenzy. They get there late, and then their emotions trick us into action. A rational investor would say, “Okay, I missed that move. Where are these opportunities now; if there are any at all?”

Investing reaches its most challenging level when you are relying on your investments to meet an anticipated and repeated need for cash outflows.

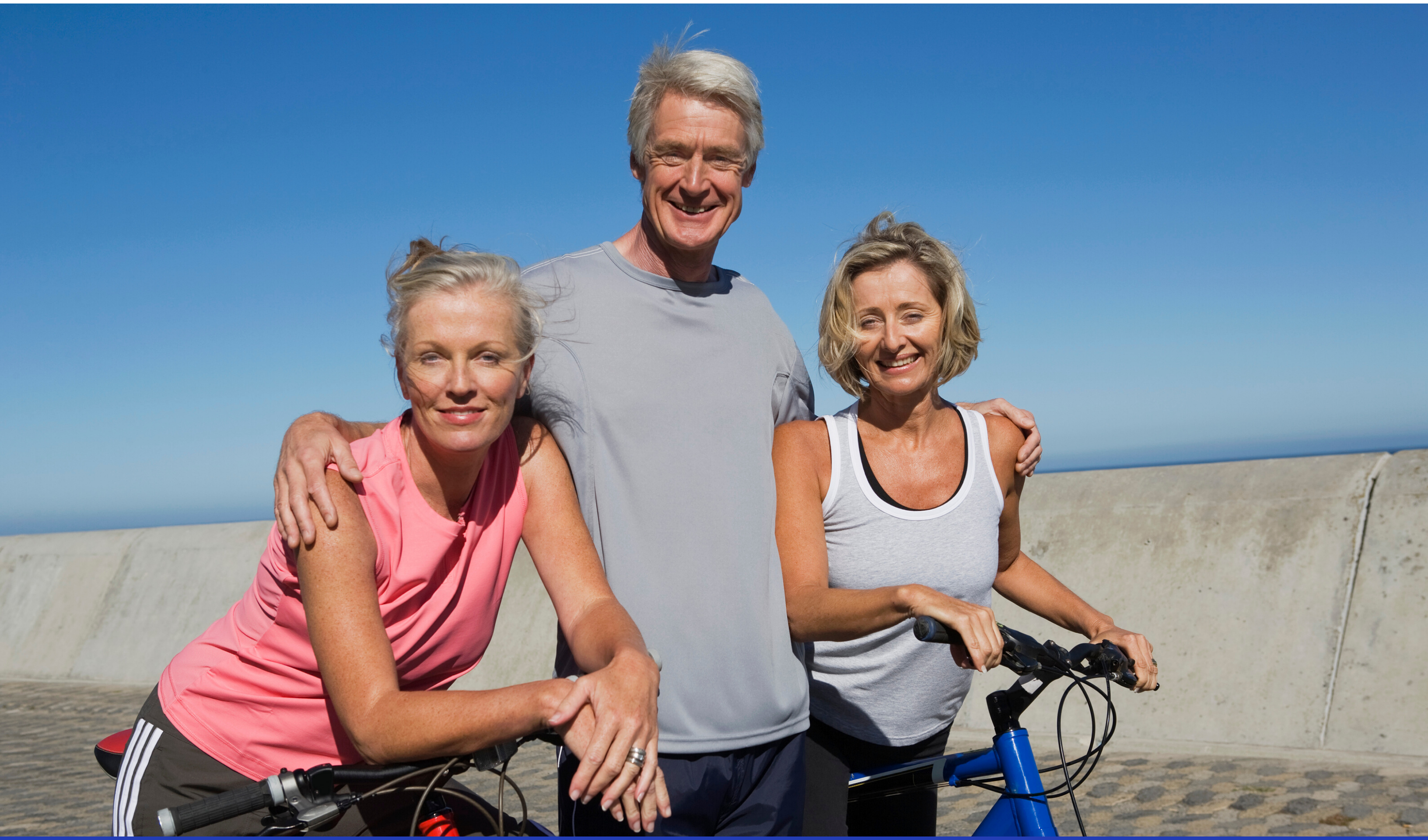
Institutional investors will tell you, portfolio decisions are almost always easier when there is more cash flowing in than flowing out. It means that there is one dominant mode of thought: “where to invest new money?” Some attention will be given to managing existing assets — pruning away assets with less potential, but the need won’t be as pressing. (Note: At really high rates of cash inflow, investing gets really tough as well. But that’s another story; one that successfully lived though 1998-2003…)

Trying to meet a cash withdrawal rate that is materially higher than what can safely be achieved over time, and earning enough consistently to do so is incredibly difficult. Doing so as an amateur managing your own retirement portfolio will be a particularly hard version of this problem [1]. Let me point out some of the areas where many investors encounter difficulty:

1) You don't know how long you, your spouse, and anyone else relying on you will live. Average life expectancy can be calculated, but particularly with two people, the odds are good that one will outlive an average life expectancy. Can you be conservative enough in your withdrawals that you won't outlive your money?

2) My estimate of what the safe withdrawal rate is on perpetuity is the yield on the 10-year Treasury Note plus around 1%. That additional 1% can be higher after the market has gone through a bear market, and valuations are cheap. It could also be as low as zero when you are near the end of a bull market.

Now, most people people with discipline want a simple spending rule, and so those that are moderately conservative choose that they can spend 4%/year of their assets. Presently, if interest rates don't go lower still, that will likely work (60-80% likelihood). But if your income needs are greater than that, your odds of obtaining satisfactory yields over the long haul go down dramatically.



3) Will you be able to maintain an iron discipline, and not overspend your assets? It is extremely tempting to do so. The temptation will get greater when bad events happen that break the budget, whether those are healthcare or other needs. It is incredibly difficult to avoid paying for an immediate pressing need, when the soft cost is harming your future. There is every incentive to say, "We'll figure it out later." The odds on that being true will be low.

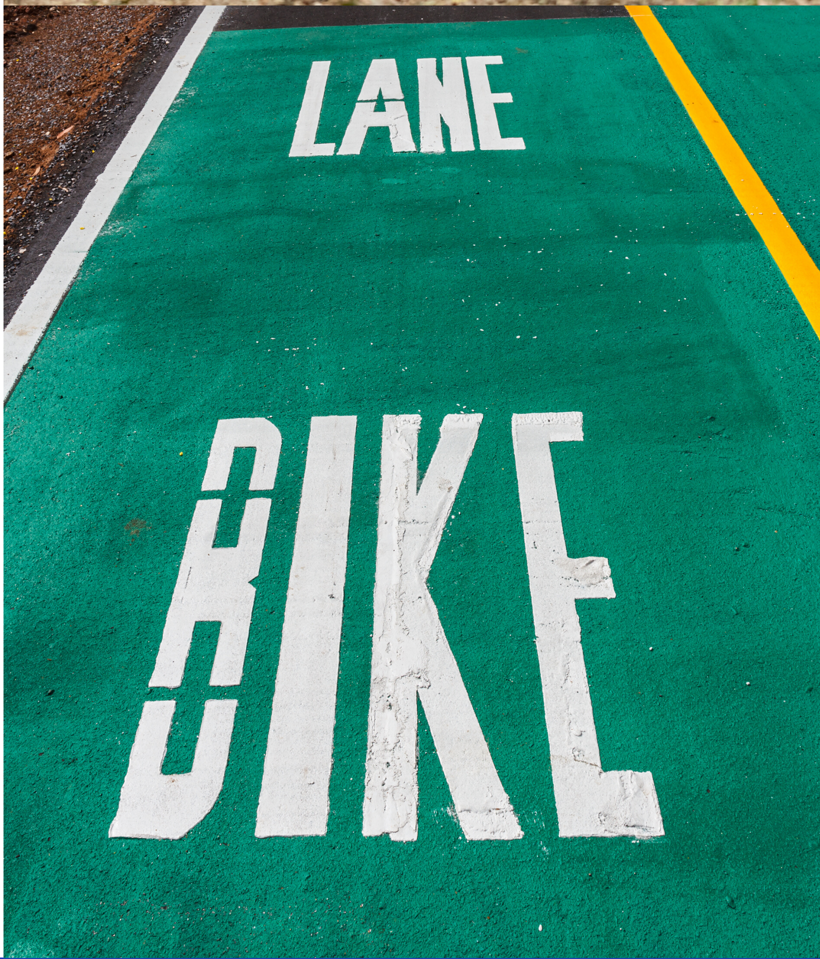
4) How will you deal with bear markets, particularly ones that occur early in retirement? Can you and will you reduce your expenses to reflect those losses? On the other side, during bull markets, will you build up a buffer, and not get reckless during seemingly good times?

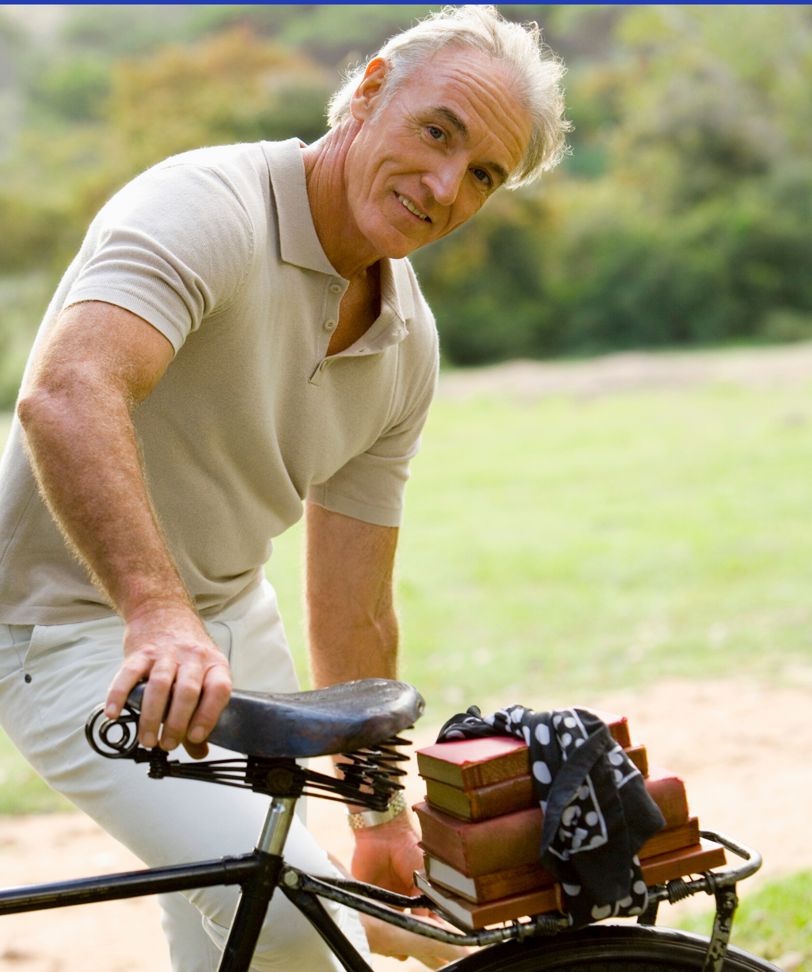
This is an easy prediction to make, but after the next bear market, look for an overflow of "Our retirement is ruined" articles. Look for there to be hearings in Congress that don't amount to much — and if they do amount to much, watch them make things worse by creating R Bonds, or some garbage like that.[2]

5) Avoid investing in too many income vehicles; the easiest temptation to give into is to stretch for yield — it is the oldest scam in the books.[3] This applies to dividend paying common stocks, and stock-like investments like REITs, MLPs, BDCs, etc. They have no guaranteed return of principal. On the plus side, they may give you capital gains if you use them right, buying them when they are out of favor, and reducing exposure when everyone is buying them.

Another easy prediction to make is that junk bonds and non-bond income vehicles will be a large contributor to the shortfall in asset return in the next bear market. A decent number of people are buying them as if they are magic. The naive buyers think: all they do is provide a higher income, and there is no increased risk of capital loss.

6) Avoid taking too much or too little risk. It’s psychologically difficult to buy risky assets when things seem horrible, or sell when everyone else is carefree. If you can do that successfully, you are rare. What is achievable by many is to maintain a constant risk posture. Don’t panic; don’t get greedy — just stick to your investment plan through the cycles of the markets.





7) As your retirement assets shrink, what will you liquidate? The best thing for you to do is be forward-looking, and liquidate what has the lowest risk-adjusted future return. What is achievable is selling assets off from everything proportionally, taking account of tax issues where needed.

8) Are you ready for Social Security to take a hit out around 2026? Once the SSA trust fund gets down to one year's worth of payments, future payments get reduced to the level sustainable by expected future contributions. Expect a political firestorm when this becomes a live issue, say for the 2024 Presidential election. There will be a bloc of voters to oppose leaving benefits unchanged by increasing Social Security taxes.

9 - 10

9) Be wary of inflation, but don't overdo it. The retirement of so many people may be deflationary — after all, look at Japan and Europe so far. Economies also work better when there is net growth in the number of workers. It will be tempting for policymakers to shrink what liabilities they can shrink through inflation, but there will also be a bloc of voters to oppose that.

10) You need a defender of two against slick guys who will try to cheat you when you are older. If you have assets, you are a prime target for scams. Most of these come dressed in suits: brokers and other investment salesmen with plausible ways to make your money stretch further. But there are other scams as well — run everything significant past a smart younger person who is skeptical, and knows how to say no when needed.

There are not enough resources to give all of the Baby Boomers a lush retirement, without unduly harming younger age cohorts, and this is true over most of the developed world, not just the US.

Even with skilled advisers helping you, you need to be ready for the hard choices that will come up. Better you should think through them earlier rather than later. Who knows? You might take some actions that will lower your future risks. More on that in a future post, as well as the other retirement risk issues.

Sources/Disclaimer

Sources

[1] https://www.bloomberg.com/news/articles/2014-10-08/a-401-k-conundrum-can-you-make-cash-pile-last-for-life-
[2] http://alephblog.com/2010/01/14/r-bonds-r-bad-4-u/
[3] http://alephblog.com/2010/06/03/yield-the-oldest-scam-in-the-books/

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About The Retirement Group

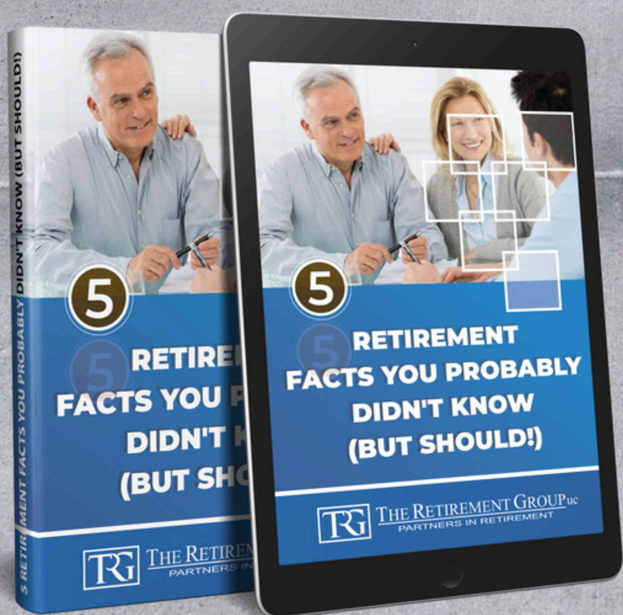
The Retirement Group is a nation-wide group of financial advisors who work together as a team. We focus entirely on retirement planning and the design of retirement portfolios for transitioning corporate employee. Each representative of the group has been hand selected by The Retirement Group in select cities of the United States. Each advisor was selected based on their pension expertise, experience in financial planning, and portfolio construction knowledge.

TRG takes a teamwork approach in providing the best possible solutions for our clients' concerns. The Team has a conservative investment philosophy and diversifies client portfolios with laddered bonds, CDs, mutual funds, ETFs, Annuities, Stocks and other investments to help achieve their goals. The team addresses Retirement, Pension, Tax, Asset Allocation, Estate, and Elder Care issues. This document utilizes various research tools and techniques. A variety of assumptions and judgmental elements are inevitably inherent in any attempt to estimate future results and, consequently, such results should be viewed as tentative estimations. Changes in the law, investment climate, interest rates, and personal circumstances will have profound effects on both the accuracy of our estimations and the suitability of our recommendations. The need for ongoing sensitivity to change and for constant re-examination and alteration of the plan is thus apparent.

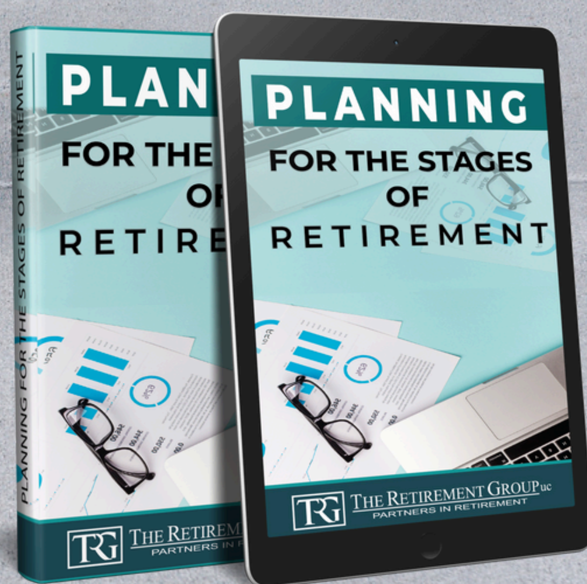
Therefore, we encourage you to have your plan updated a few months before your potential retirement date as well as an annual review. It should be emphasized that neither The Retirement Group, LLC nor any of its employees can engage in the practice of law or accounting and that nothing in this document should be taken as an effort to do so. We look forward to working with tax and/or legal professionals you may select to discuss the relevant ramifications of our recommendations.

Throughout your retirement years we will continue to update you on issues affecting your retirement through our complimentary and proprietary newsletters, workshops and regular updates. You may always reach us at (800) 900-5867.

For more Financial information, check out these resources...



Retirement FunFacts



Planning for The Stages of Retirement