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PORTFOLIO FAILURE

Most brokers and Investment Advisors/Financial Planners have planned their clients into Portfolio Failure.

The problem is that most clients are unaware that they are doomed to fail in retirement. People who believe they have properly prepared themselves for a comfortable, worry free retirement will be disappointed when they run out of money during their retirement, while they still have significant life expectancy - Meaning they ran out of money before they ran out of Life.

The goal of all retirees is to have a sustainable, inflation adjusted, lifetime income during retirement.

Most Financial Planners and Brokers rely on a faulty study when positioning their client's assets to meet the retirement goal of Sustainable, Inflation adjusted, Lifetime Income.

They generally rely on the Bengen study which provides that retirees can safely withdraw 4% of their portfolio value to support themselves in retirement. This 4% rule of the safe withdrawal rate is based on 2 faulty assumptions.

The 2 faulty assumptions are that of assuming an average life expectancy based on mortality tables and not anticipating the sequence of Inflation.

First, the basic Life Expectancy Tables will suggest a retirement life expectancy of 30 years, based on the average person at 65 living until 86 or 87. Therefore, planning for 30 years takes a person to age 95 and that should be safe. In fact, the correct assumption should be to expect a retirement life expectancy of 40 years, NOT 30. Why? Because each year a person ages past 65, their life expectancy of exceeding the average actually goes up.

For example, married couples reaching age 65 together in relatively good health wil have an 11.5% probability of one of them living to age 100.

People who are college educated have a greater than average life expectancy. People who earn above average incomes generally have a greater than average life expectancy. Therefore, a college educated couple, earning above average incomes can expect to live beyond the basic life expectancy in the basic mortality tables. When planning for retirement, these people cannot rely on the basic mortality tables to project their retirement life expectancy. To do so could leave them in a position where they will run our of Money before they run out of Life - Portfolio Failure.

In fact. 2 studies have recently shown that the traditional model relied on will result in a successful retirement plan only 57% of the time. Do you really want to plan your retirement so that it has a 57% chance of succeeding?

The second faulty assumption is assuming an average rate of return on investments of 7% with an average inflation rate of 3%, a safe withdrawal rate of 4% is justified. What the 4% rule fails to consider, is the risk of the sequence of inflation.

If a client is unlucky enough to retire as a period of high inflation begins, his/her portfolio will not be able to recover from the reduction in purchasing power early on in the distribution phase of retirement and they will have to dip into their principal to make up the shortfall.

The standard advice that most planners give their clients is to suggest a mix of 60% stocks (to provide upside gain) and 40% bonds (to hedge inflation). The stocks provide for upside potential gain and the bonds should generate a safe, predictable income. The problem is if there is a period of high inflation, the bonds will not even keep pace with inflation.

The last period of high inflation was during the mid-1970's. At that time, our country had a large federal deficit and the government was monetizing the debt. Inflation went to an all time high of 15%-18%, the prime rate was 22%, and CD’s were paying 13%-16%.

As we look at our current economic situation, we currently have a huge federal deficit, and we are currently monetizing that debt. A period of high inflation seems like it should be right around the corner if we learn anything form history. Those client whop prepare for it will actually be able to profit from the opportunity it will present, if they position their money for it NOW.

Our parents generation, retired and had Social Security to rely on which protected them from the longevity risk of living too long and was provided by the government. They had company pensions - (80%) were covered by a company pension. A pension protected them form the longevity risk and was provided by the employer. Lastly, they had their savings. But, between the Social Security payments that would last their lifetime and their pension that would last their

lifetime, between the government and their employer, they were taken care of in retirement. This is NOT the case today.

Today, we have Social Security, but only 40% of current workers are covered by a pension. They are usually government workers. Most private employers have switched to 401(k) accounts fo their workers. Now the risk of longevity has shifted from the employer provided pension to the employee 401(k) account. The pension provided lifetime income. The 401(k) account provides income for as long as the 401(k) account lasts. If there is a loss in the account due to a market fluctuation, that is the employee's problem.

The result is that people are not properly prepared for retirement and they have been misled into thinking they have done it right.

People need to reposition their money now to protect themselves from Portfolio Failure that they will not realize will happen until they're in their 80's or 90's and wonder how their money could have run out before they ran out of life.

So, do you have enough confidence in your current advisor to get a second opinion right now?

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Admitted USTax Court, 1987

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