

## Accounting for Inflation in Retirement Planning

- Founder and Principal Advisor, Variplan, LLC
  - Certified Financial Planner
  - Registered Investment Advisor
  - SEA Benefit Provider Since 1999
- Federal Times' "Money Matters" Columnist
- "Ask the Experts" Panelist at [www.federaltimes.com](http://www.federaltimes.com)

# Fundamentals of Investing for Retirement Income

1. Success and Failure in Retirement Investing
2. Defining Retirement Resources, Goals and Constraints
3. Understanding Investment Risk and Return
4. How Diversification Really Works
5. Asset Classes and Types – Diversification and Concentration
6. Understanding Asset Allocation and Hedging
7. Setting Investment Performance Expectations
8. Managing Investment Costs
9. The Case for Index Investing
- 10. Accounting for Inflation in Retirement Planning**
11. Managing Portfolio Liquidity
12. Organizing Your Portfolio

# SEA Member Benefits

- Free Hour of Consulting / Analysis
  - \$250 Vantage Discount
- Email Questions to me at [mmiles@variplan.com](mailto:mmiles@variplan.com)

## The Case for Index Investing

# A Few Advocates of Index Investing

John Bogle, Founder of the Vanguard Group

Burton Malkiel, Economist

Charles Ellis, Investment Executive

Warren Buffet, Legendary Investor

# The Purpose of Investment Management

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## What Matters

Risk-Adjusted Rate of Return

# The Key Attributes of an Investment Portfolio

## Risk-Adjusted Rate of Return

1. Expected Rate of Return
2. Standard Deviation of Returns

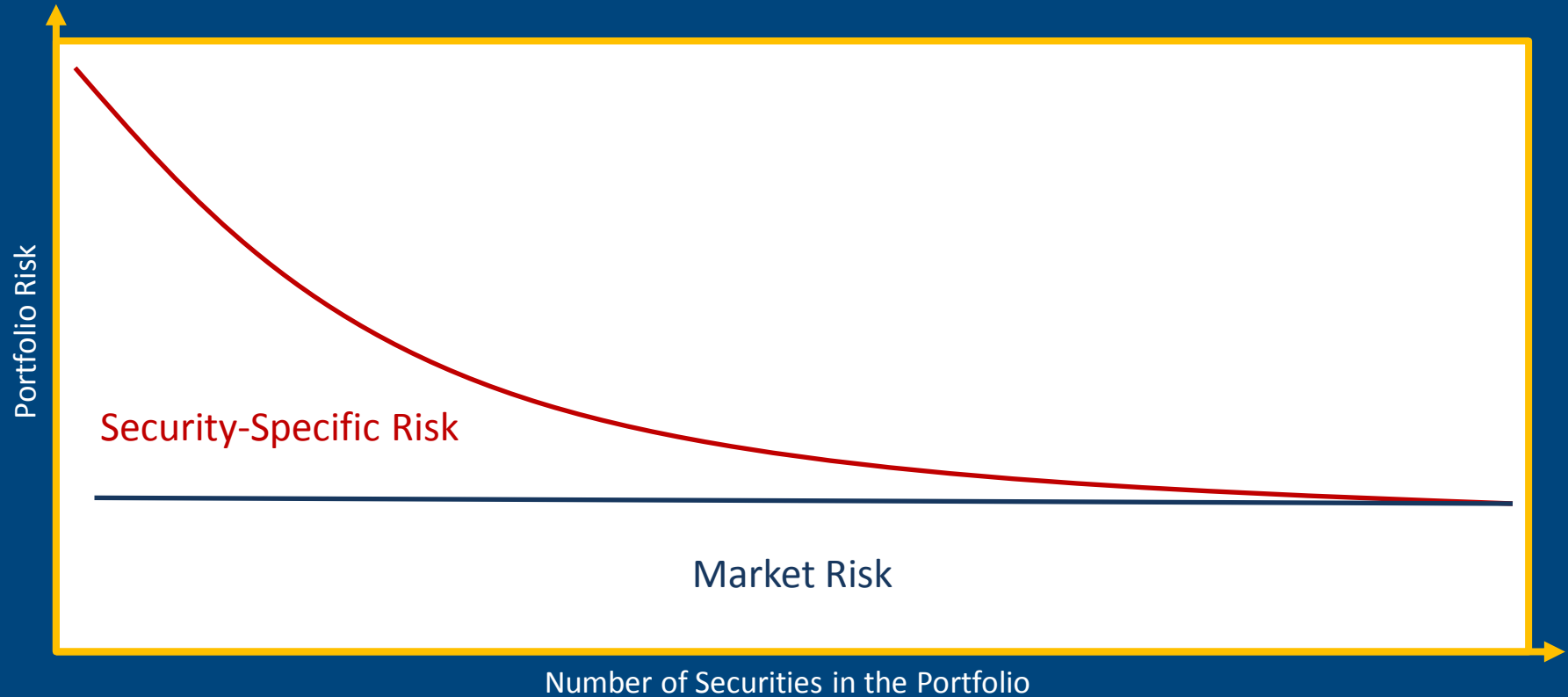


# Management Risk - Diversification

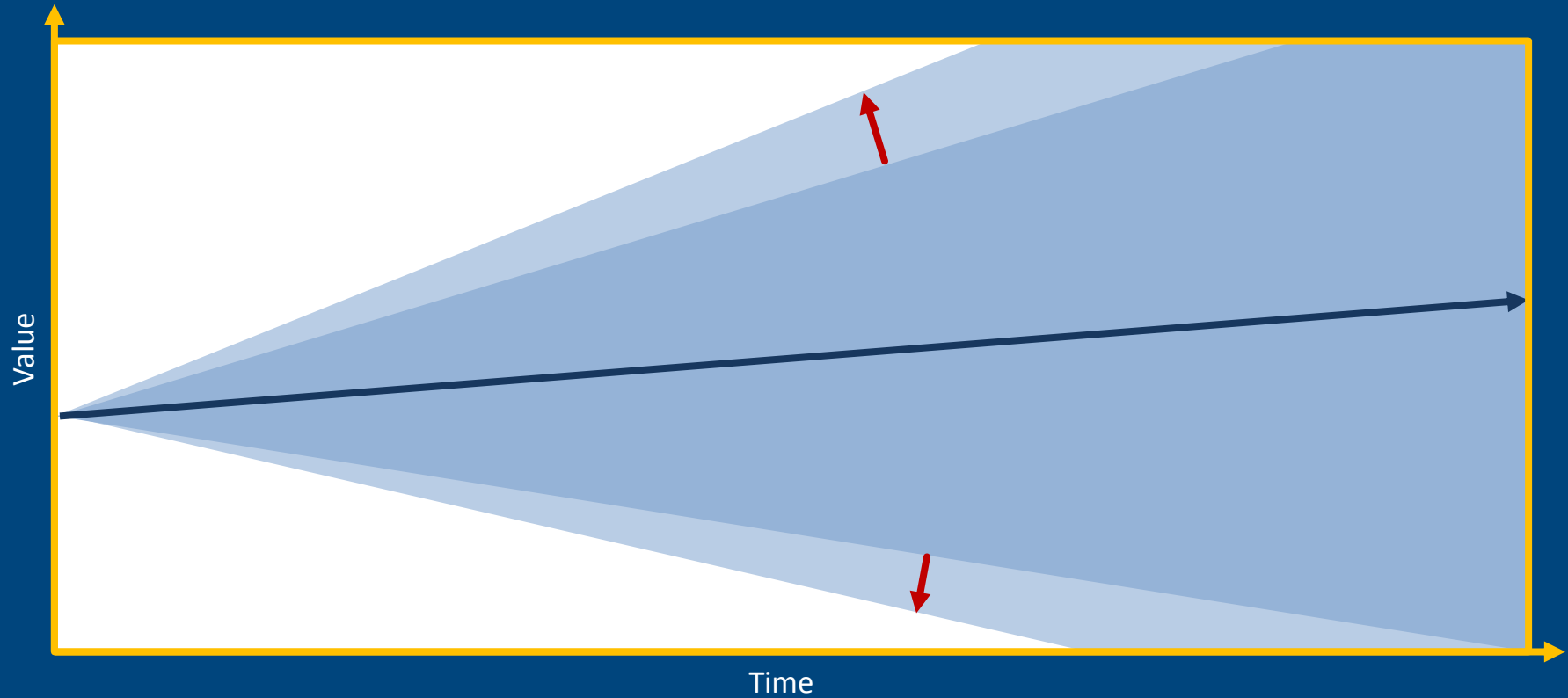
Measured by the Standard Deviation of Returns

Always greater when a portfolio is  
less-than-fully diversified

# Management Risk - Diversification



# Management Risk - Diversification



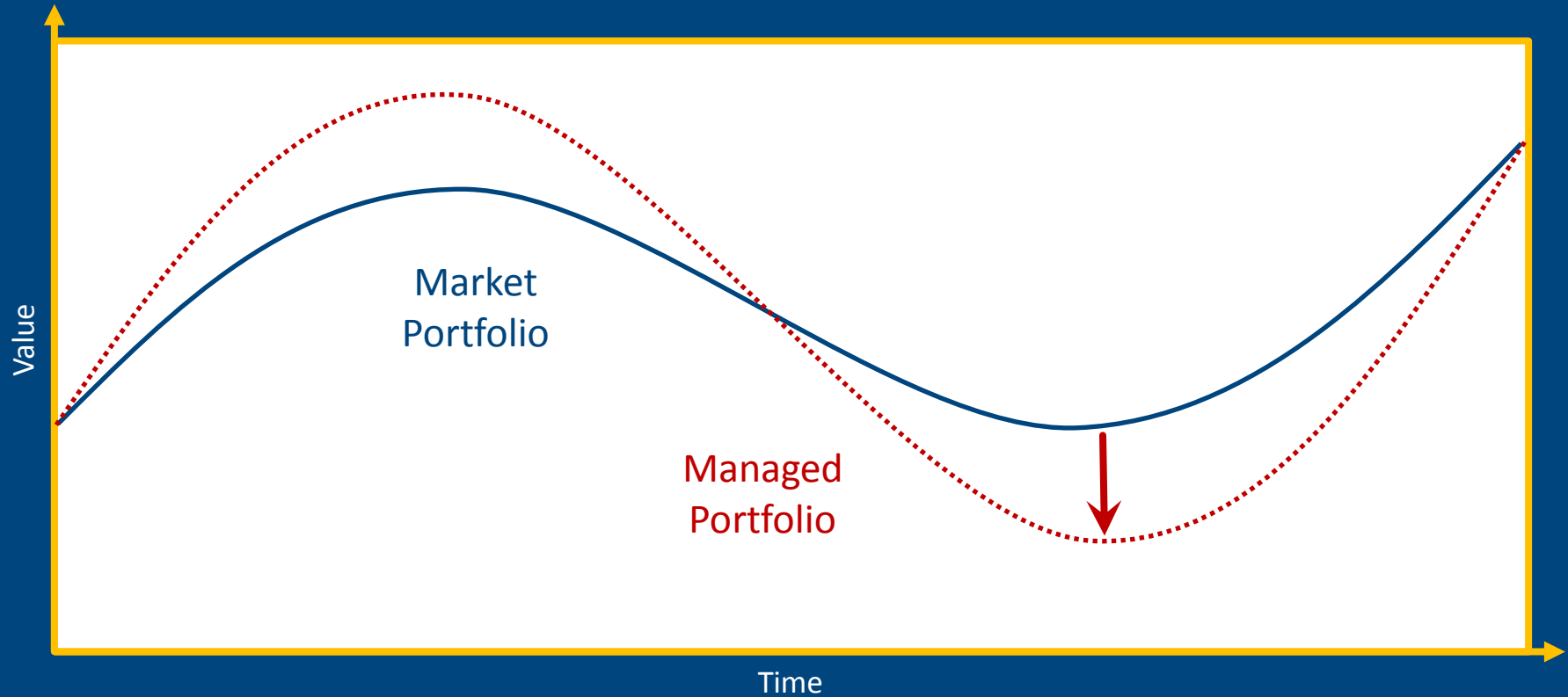
# Management Risk – Decision Quality

Adding a layer of decision-making to the market portfolio always adds an element of risk to the managed portfolio.

# Management Risk – Decision Quality

Management risk is difficult – often impossible  
– to predict and quantify

# Management Risk - Summary



# Management Risk - Summary

Source of Risk	Market Portfolio	Managed Portfolio
Diversification	Minimum	<b>Always Higher</b>
Decision Quality	Minimum	<b>Always Higher</b>
Total Risk	Minimum	<b>Always Higher</b>

# Expected Rate of Return

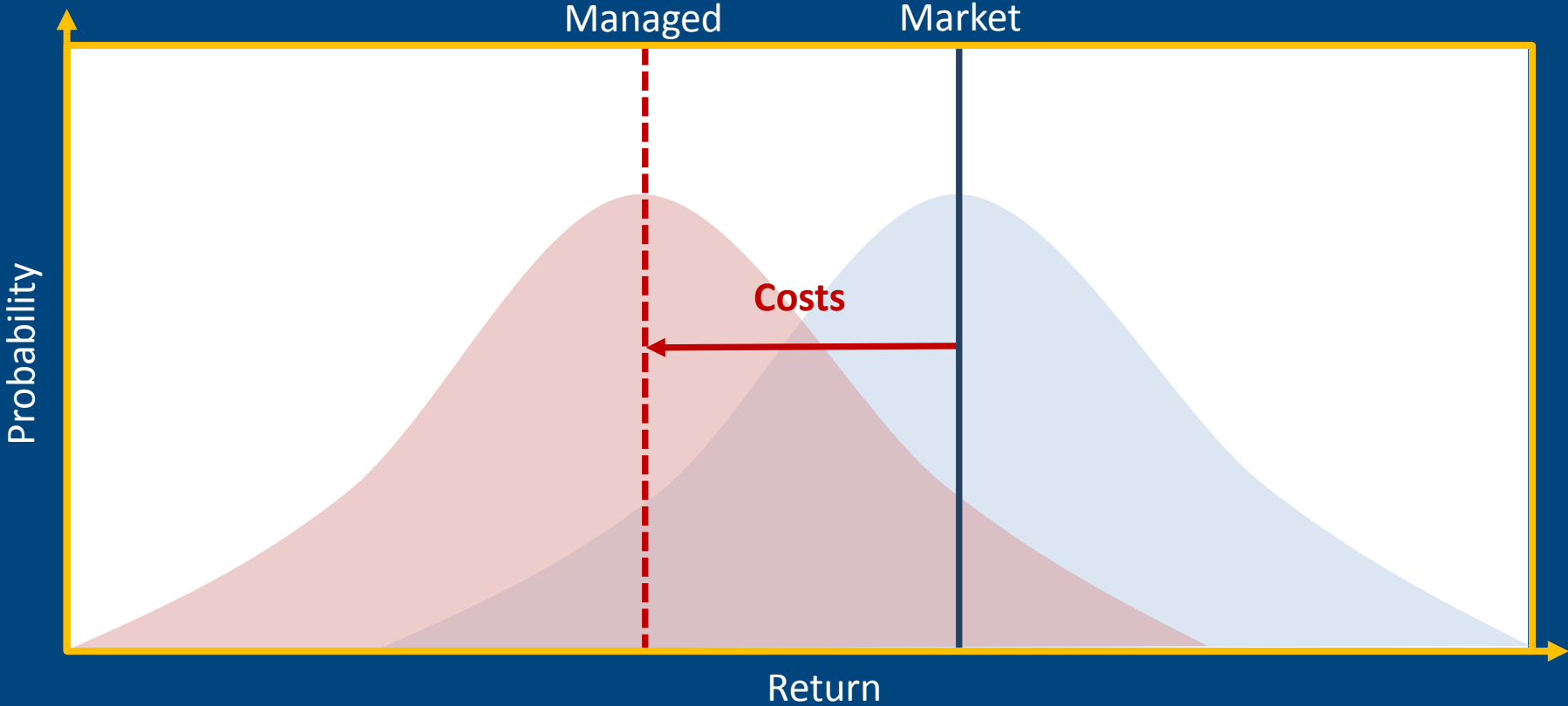
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Expected Rate of Return

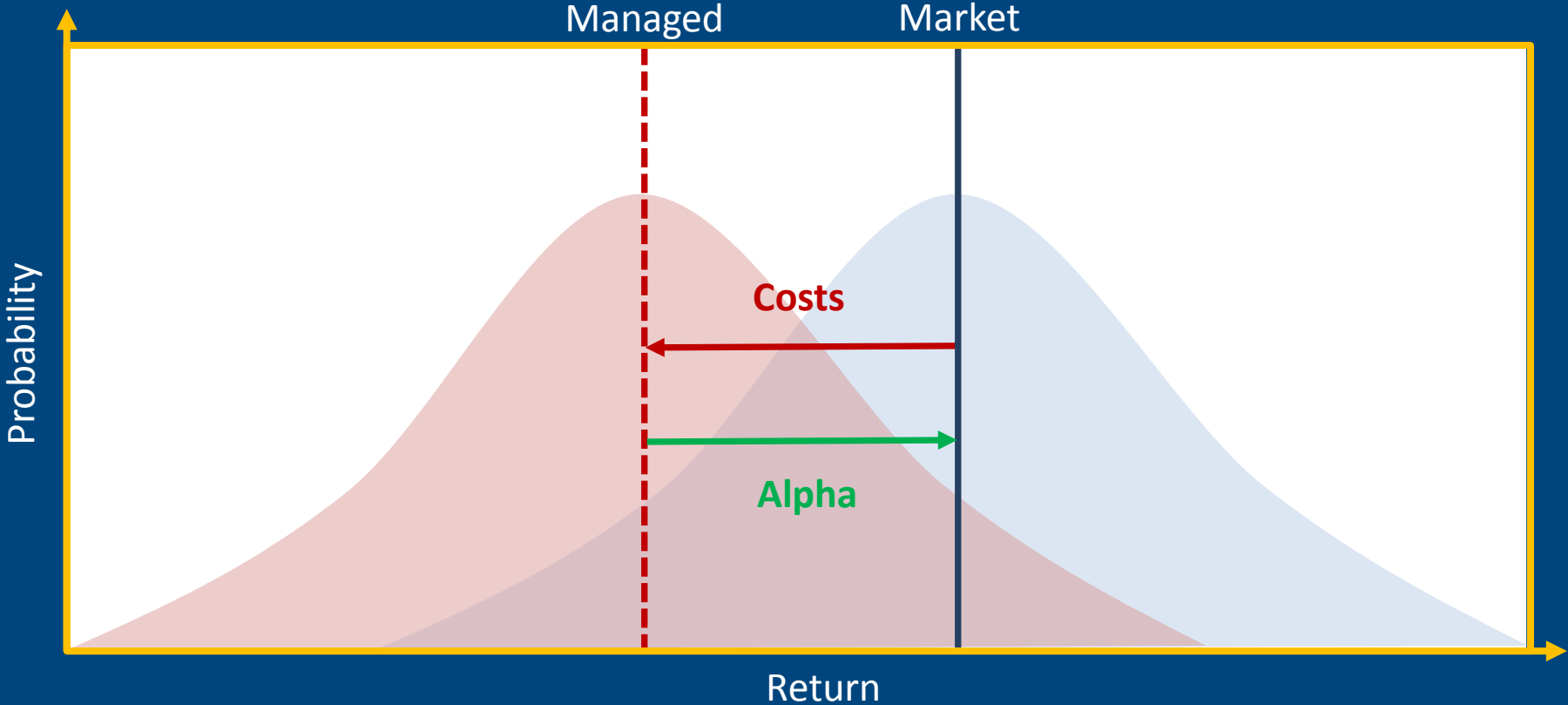
Reduced by Costs and Excess Taxes



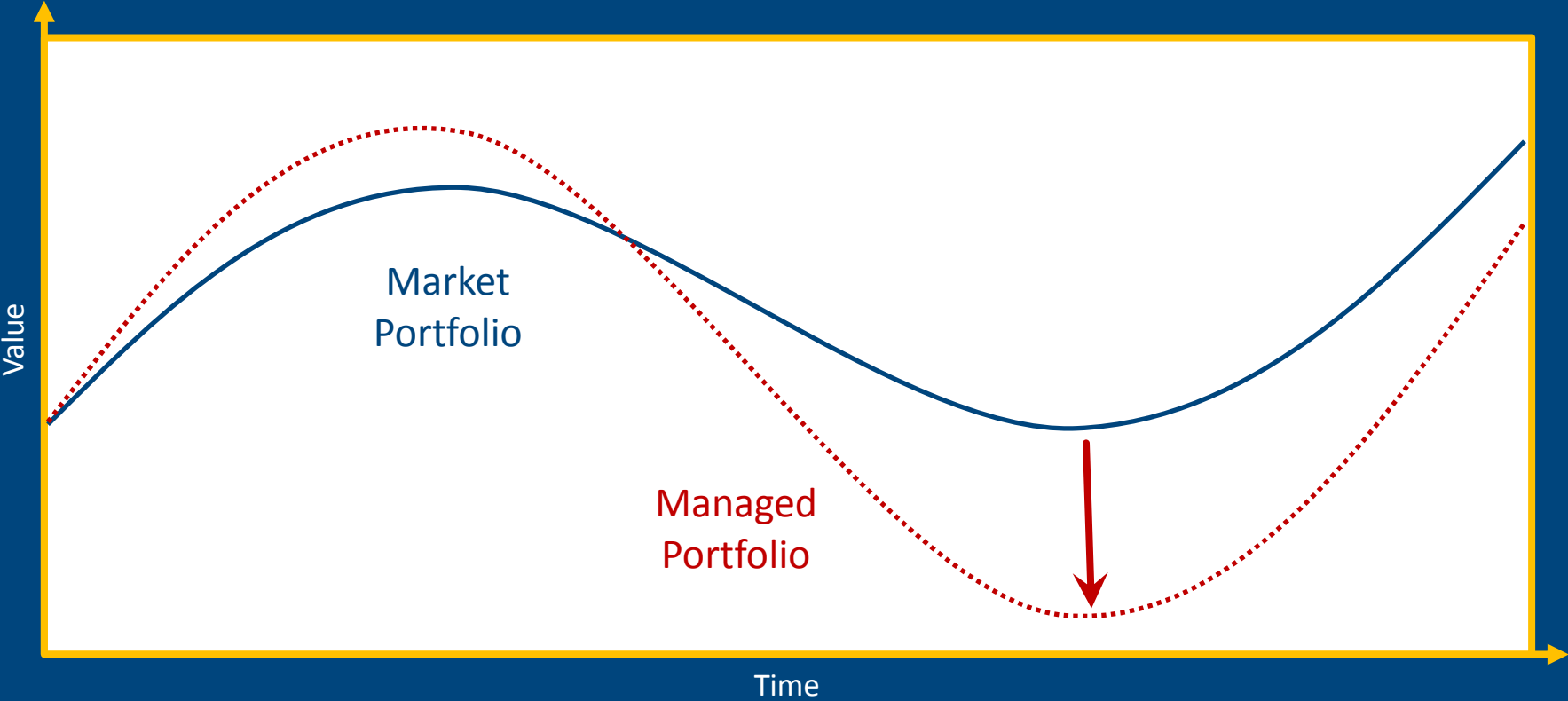
# Expected Rate of Return



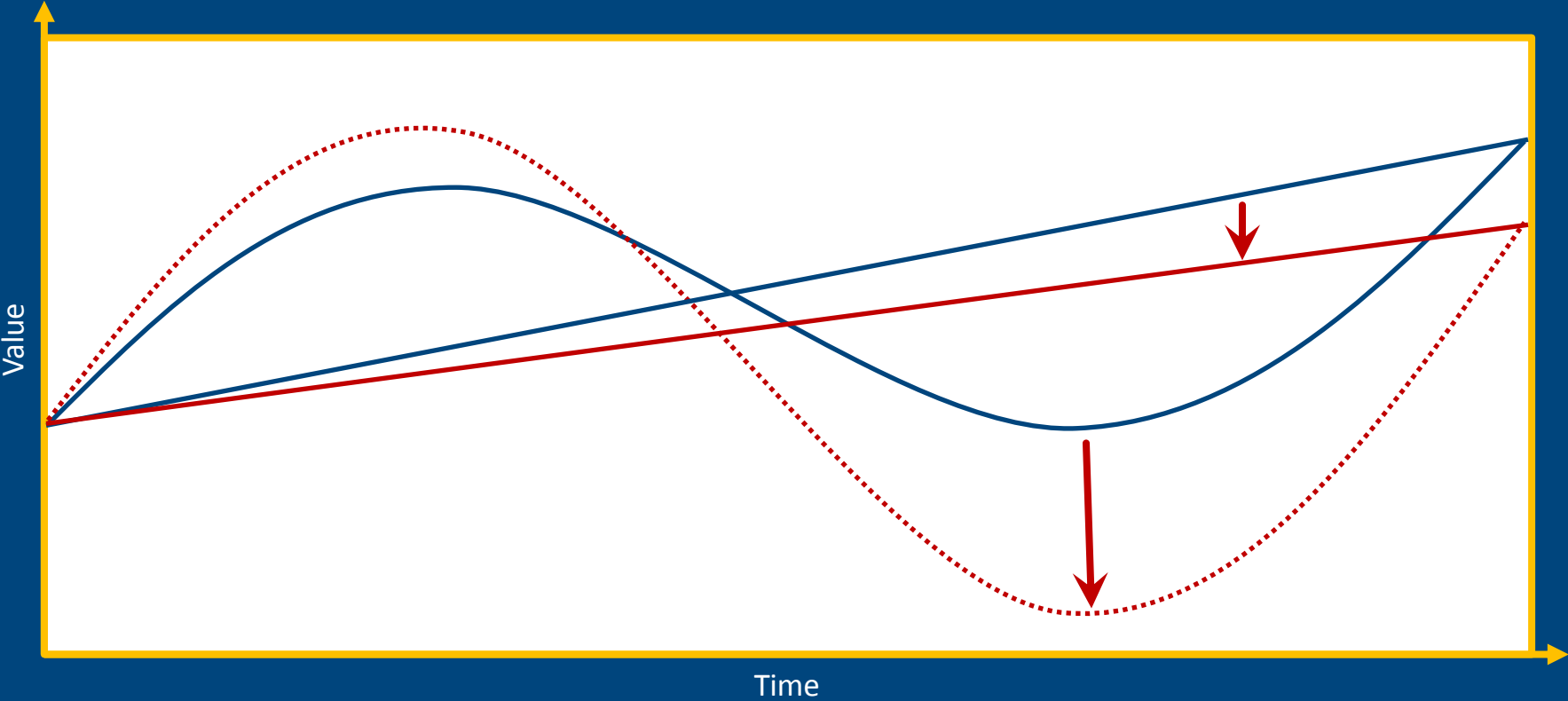
# Expected Rate of Return



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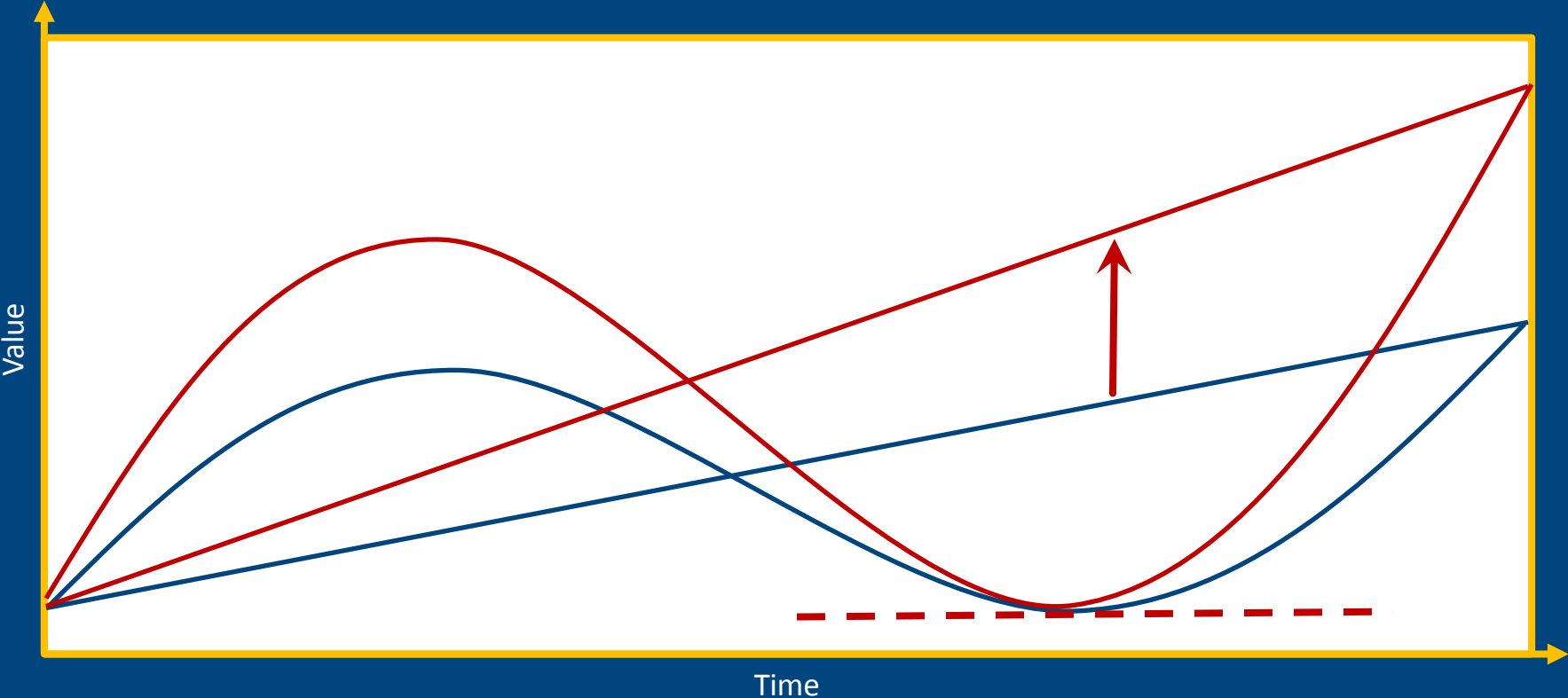
# Expected Rate of Return



# Expected Rate of Return

The challenge for the active portfolio manager  
is to generate enough return to  
compensate for the cost and the increased  
risk produced by the management.

# Expected Rate of Return



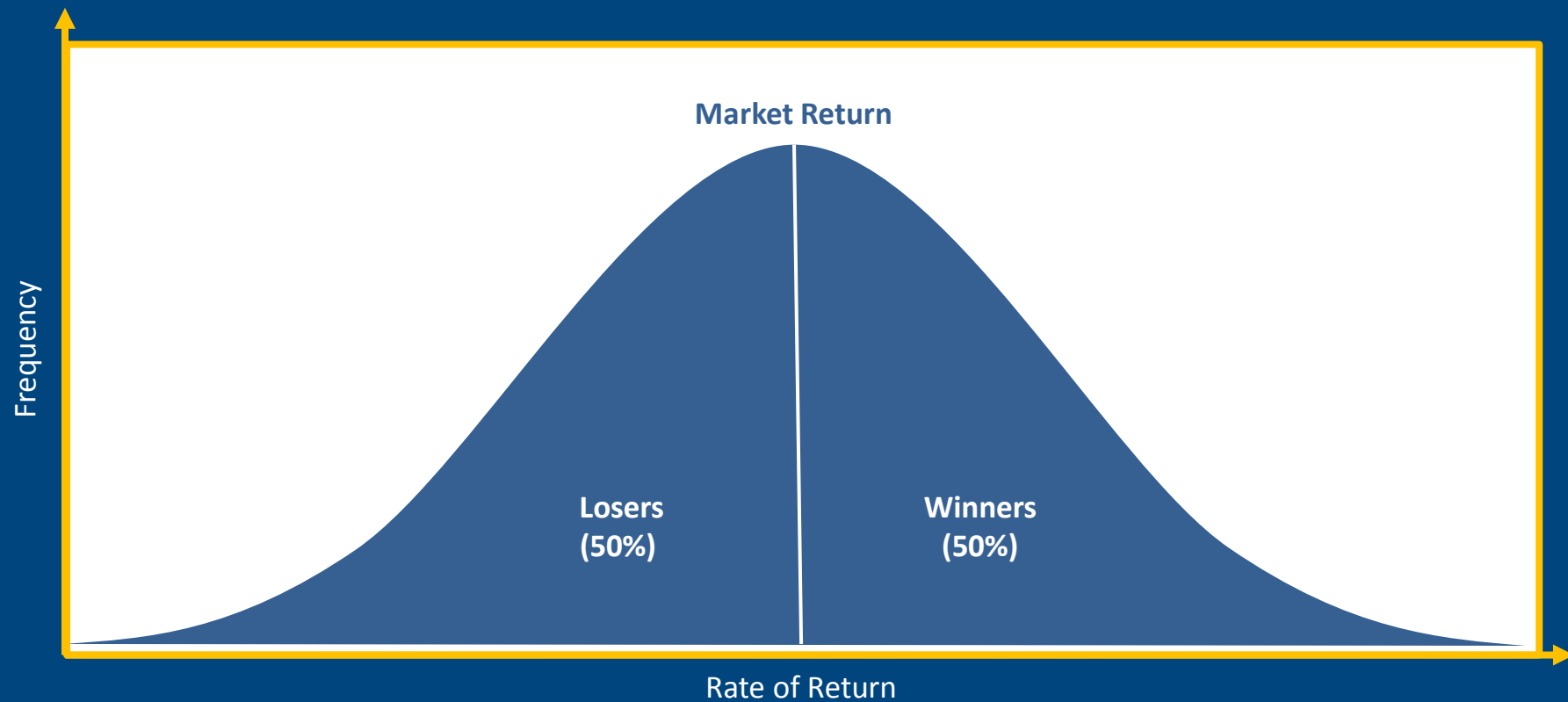
# Expected Rate of Return

This is “extra” return is called Alpha.

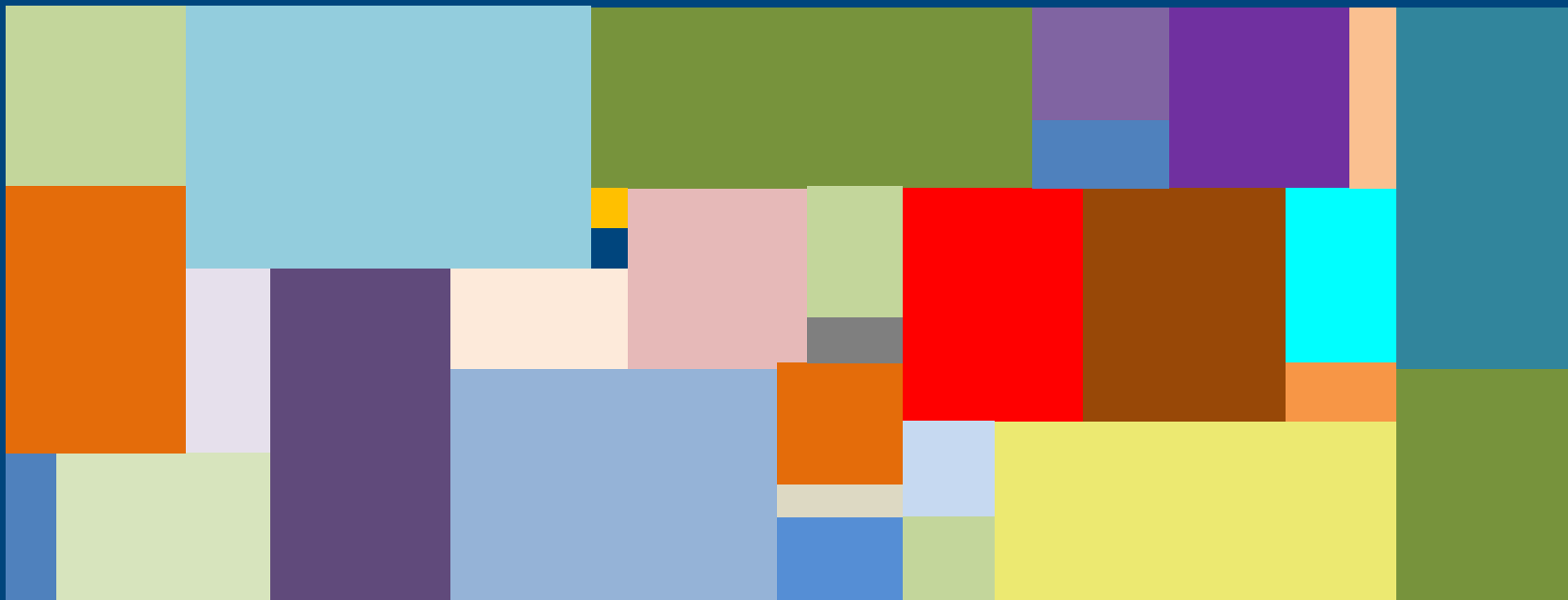
Why is creating Alpha so difficult?



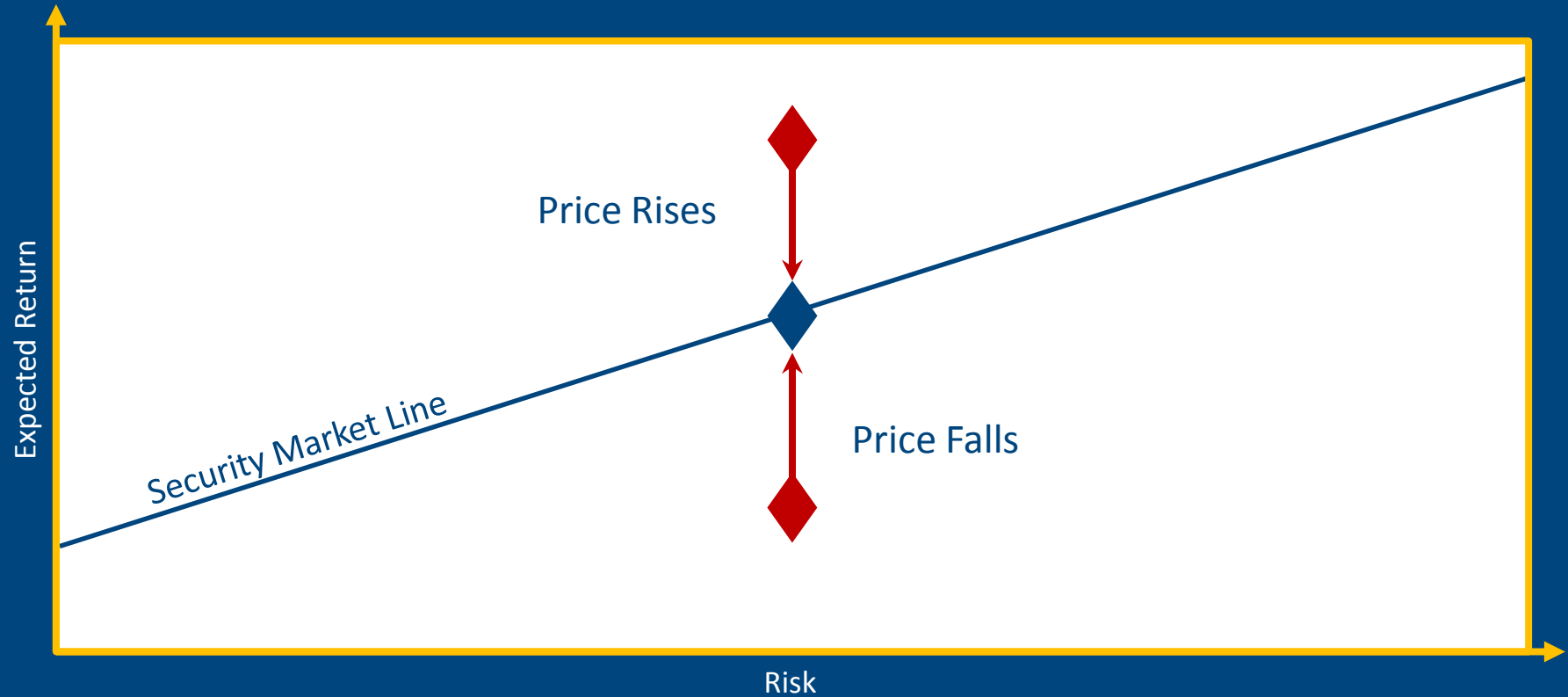
# The Zero-Sum Game



# The “Dream Team”



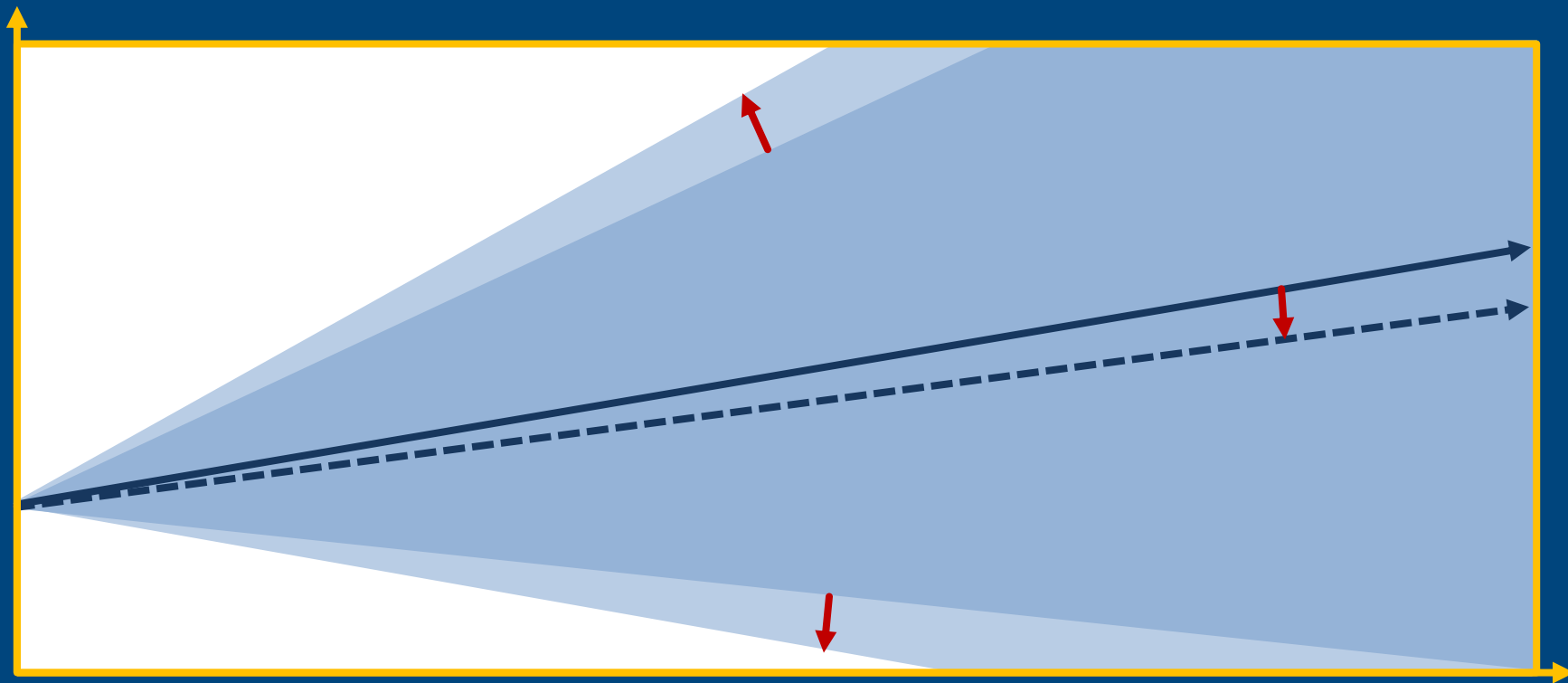
# The Random Walk



# Probability of Creating Alpha



# Index vs. Component Investing



# Index vs. Component Investing



## Accounting for Inflation in Retirement Planning

# Financial Planning and Management



- Wants
- Needs

- **Guaranteed**
  - Annuities
  - Insurance
- **At Risk**
  - **Liquid Assets**
    - Cash
    - Marketable Securities
  - **Illiquid Assets**
    - Real Estate
    - Business Interests

- **Action**
  - Constraints
- **Decisions**
- **Analysis**
  - Assumptions
  - Experience
  - Probabilities
  - Estimates

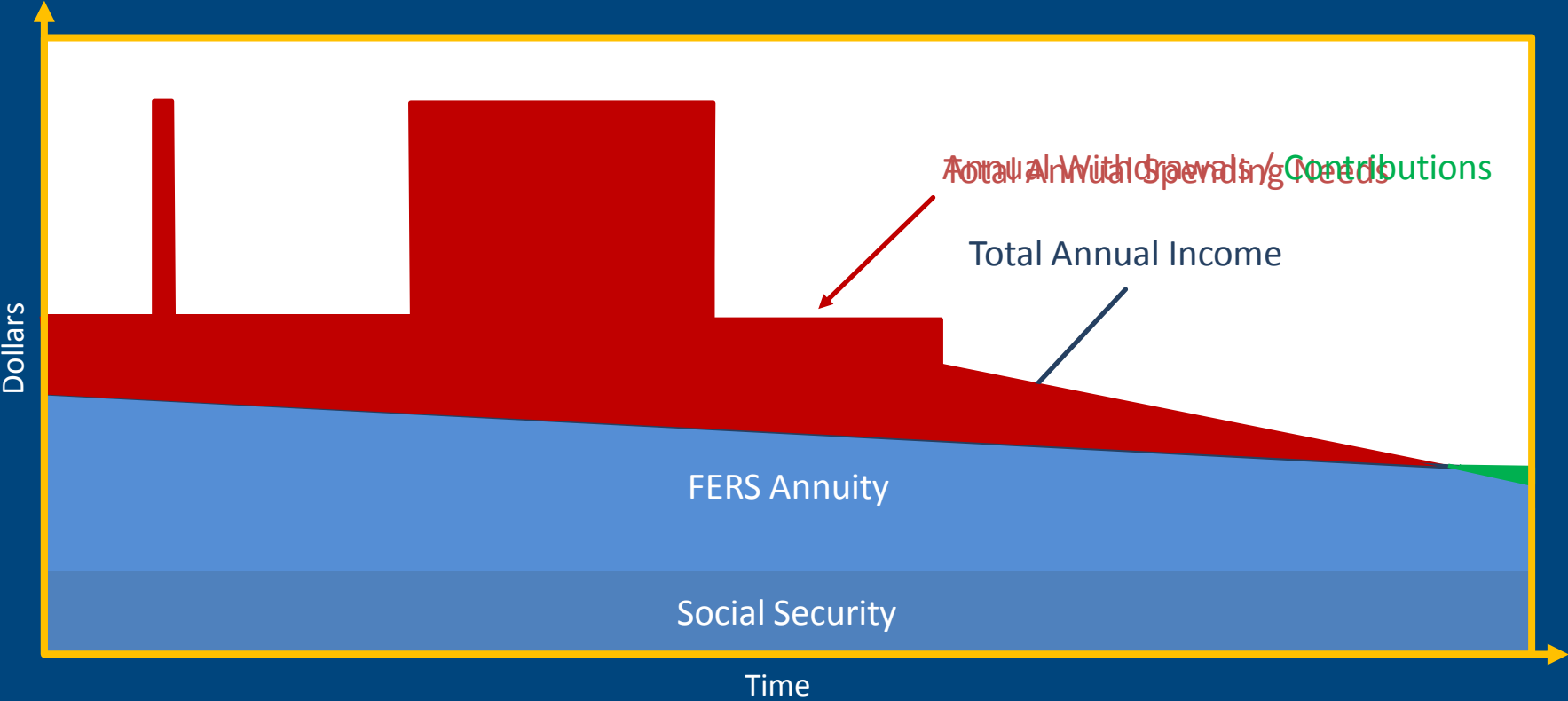
- Risk
- Return

- Cash Flow
- Wealth

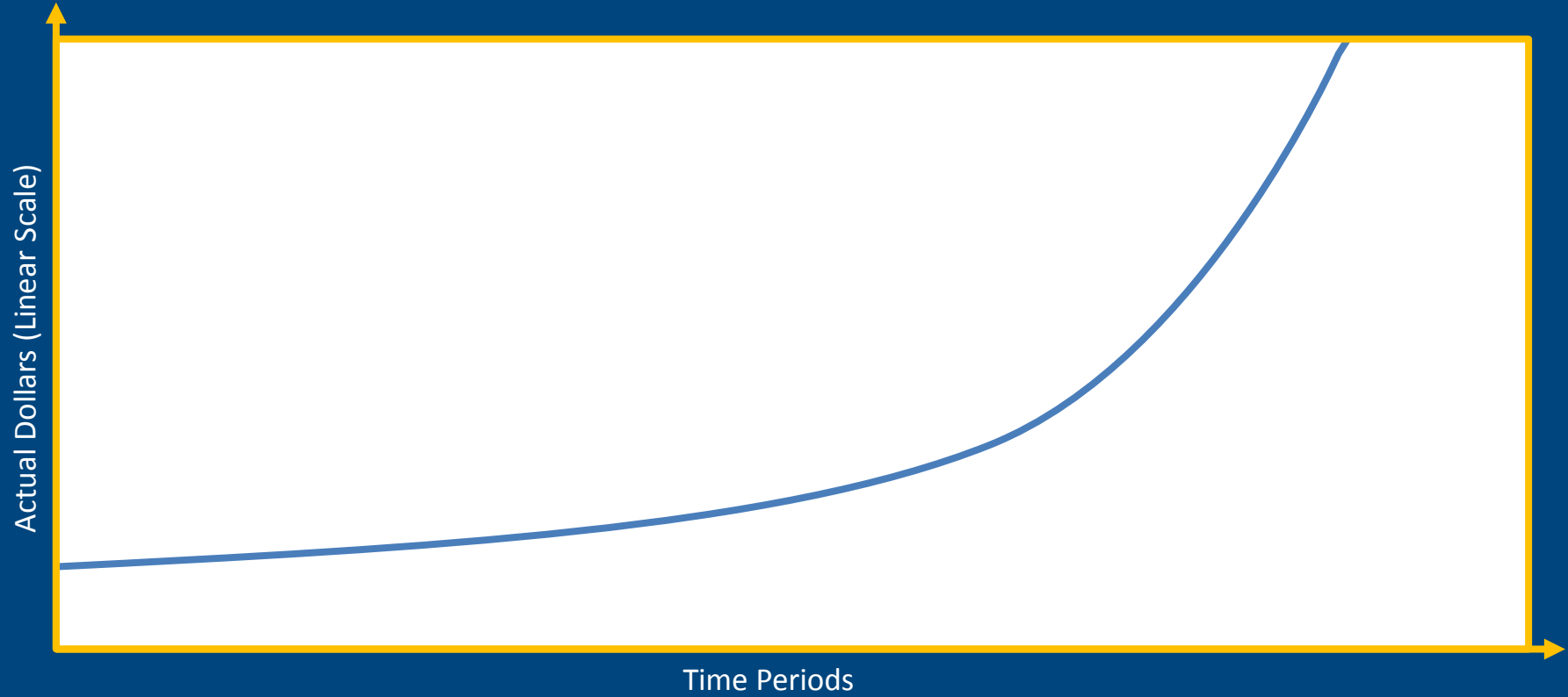
Inflation & Taxes



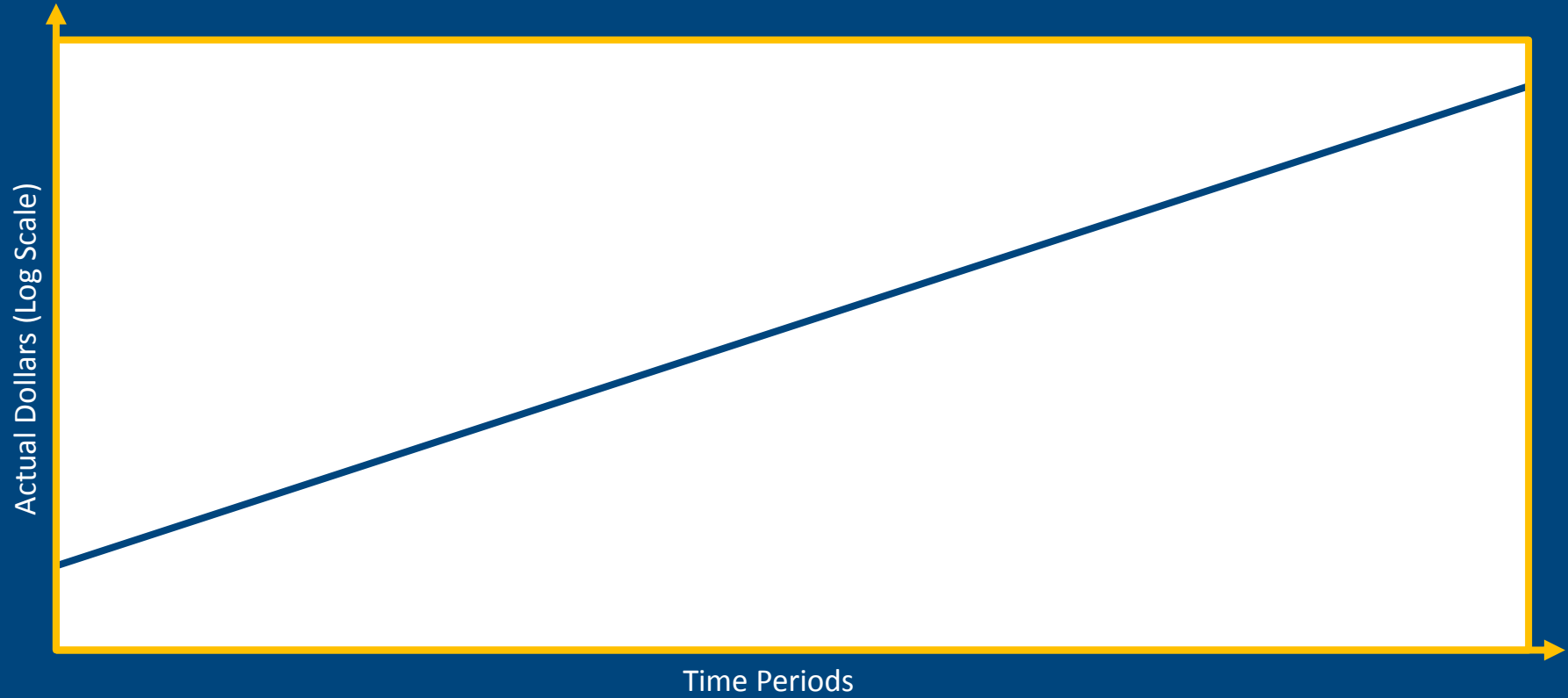
# Estimating Portfolio Cash Flows



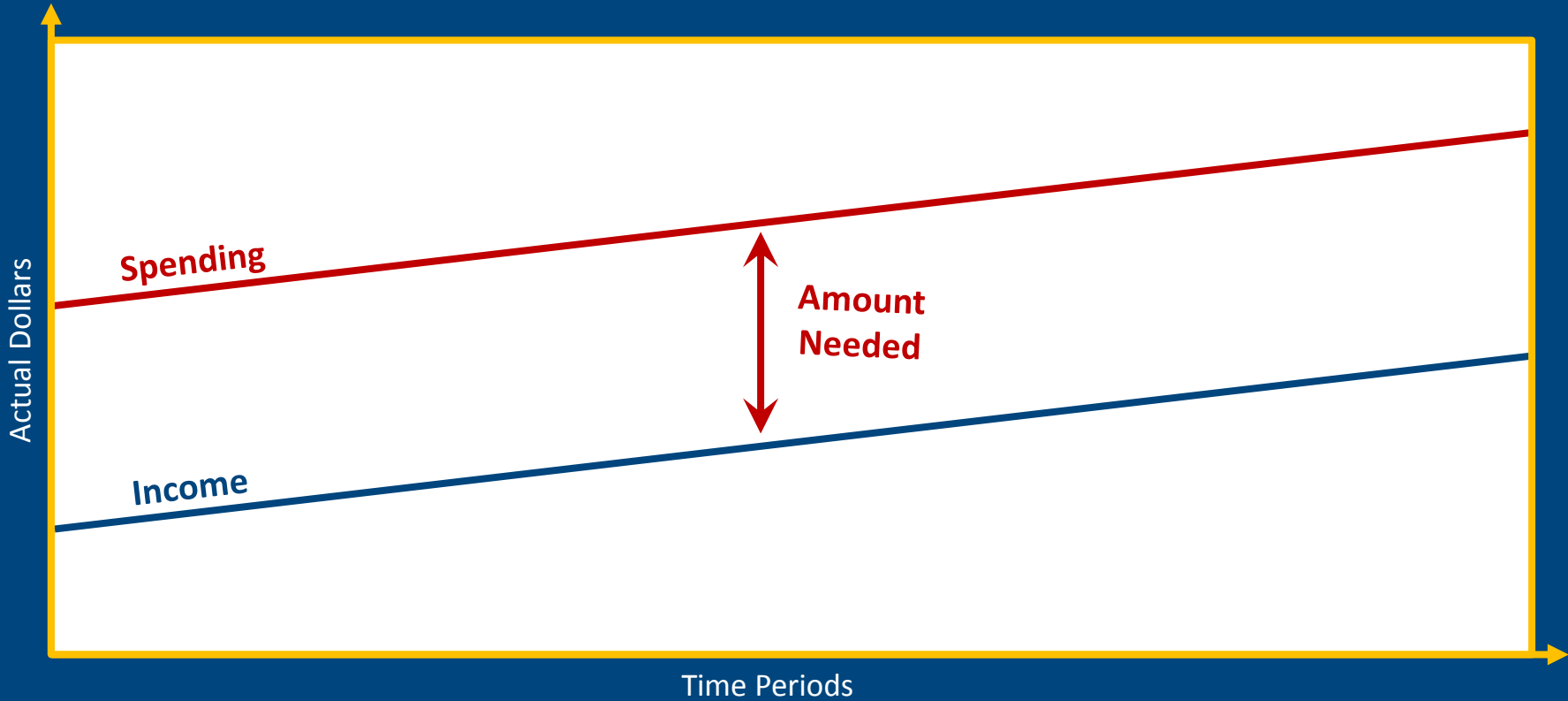
# Inflation



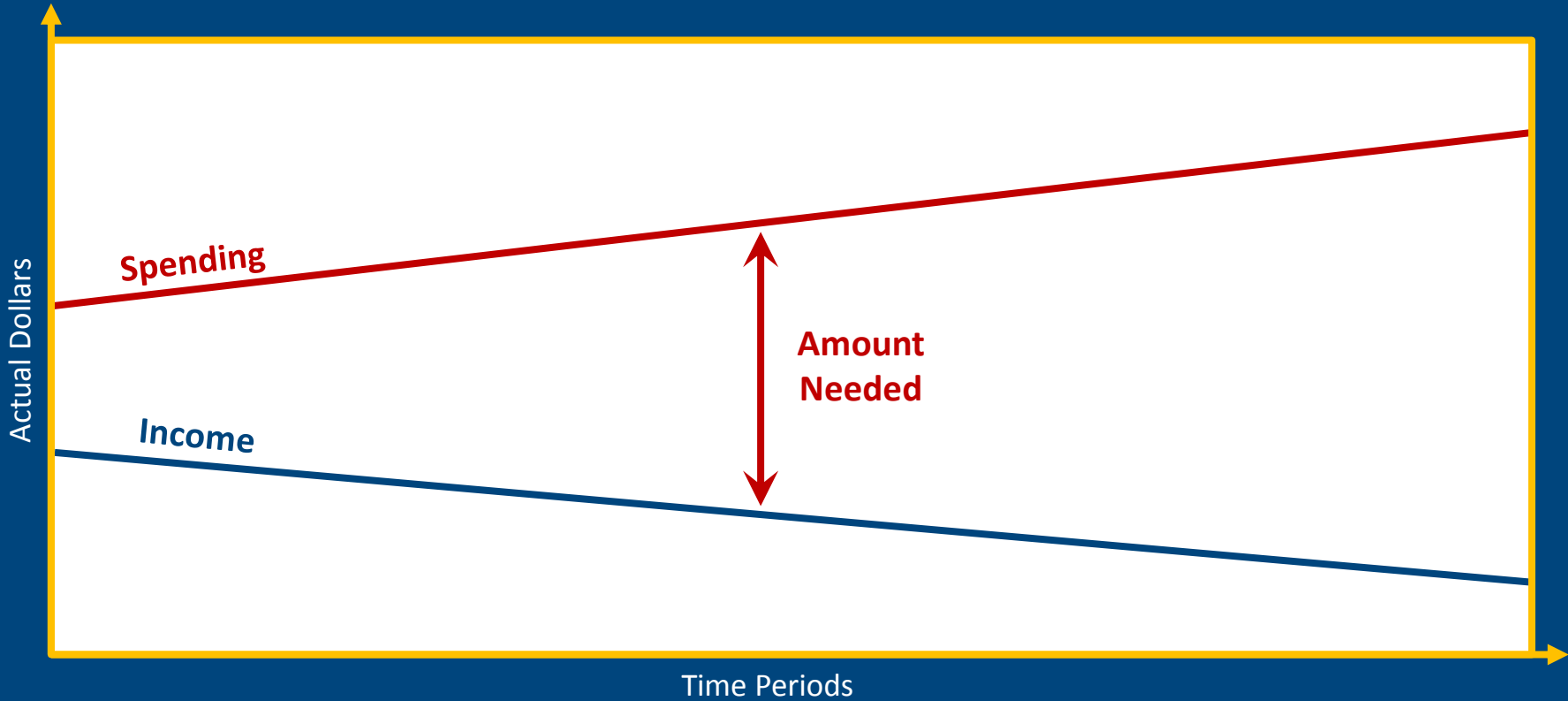
# Inflation



# Estimating Portfolio Cash Flows



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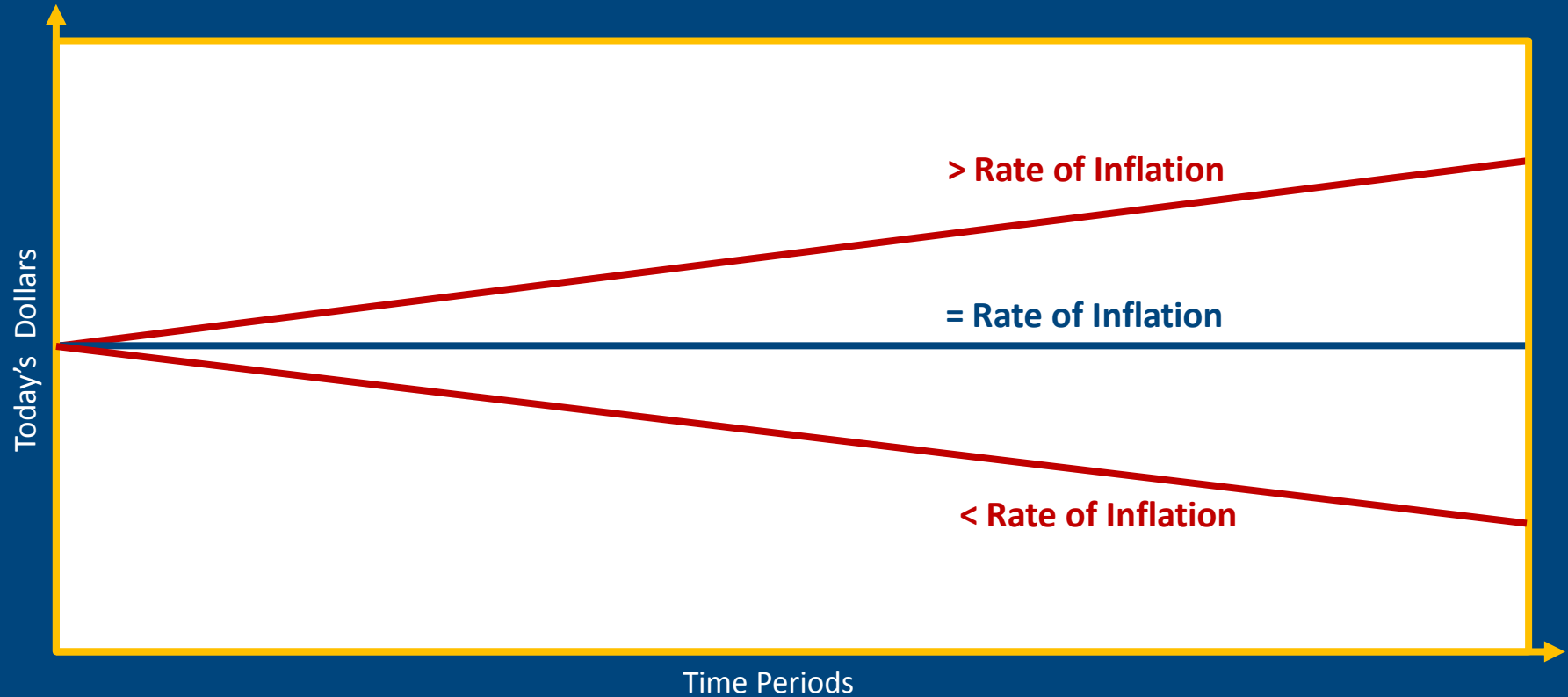
# Discounting for Inflation

$$\frac{\text{Future Value}}{(1+R_i)^n}$$

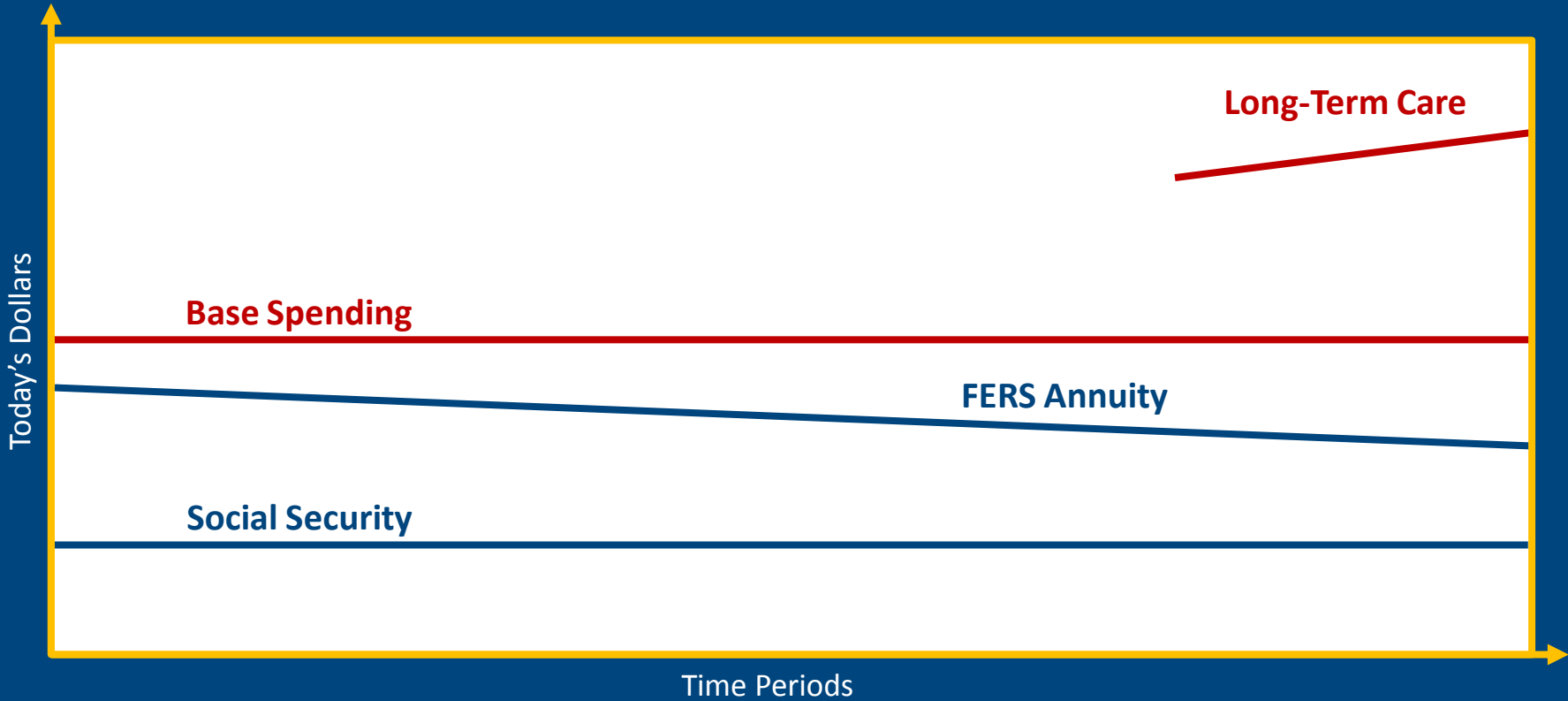
$R_i$  = Inflation Rate

$n$  = Number of Periods

# Discounting for Inflation



# Estimating Portfolio Cash Flows





# Next Week's Webinar

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