

Success and Failure in Retirement Investing

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 - Certified Financial Planner
 - Registered Investment Advisor
 - SEA Benefit Provider Since 1999
- Federal Times' "Money Matters" Columnist
- "Ask the Experts" Panelist at www.federaltimes.com

Course Content

- 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

The Importance of Properly Defining Success

The way you define success relates directly to how you manage your resources, and indirectly to the outcomes you experience.

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

A Common Mistake

Defining success in terms of wealth accumulation when cash flow is the primary goal.

The Wrong Measures of Success

- Average Rate of Return
- Beating an Index
- Short-Term Gains
- Relatively High Yields

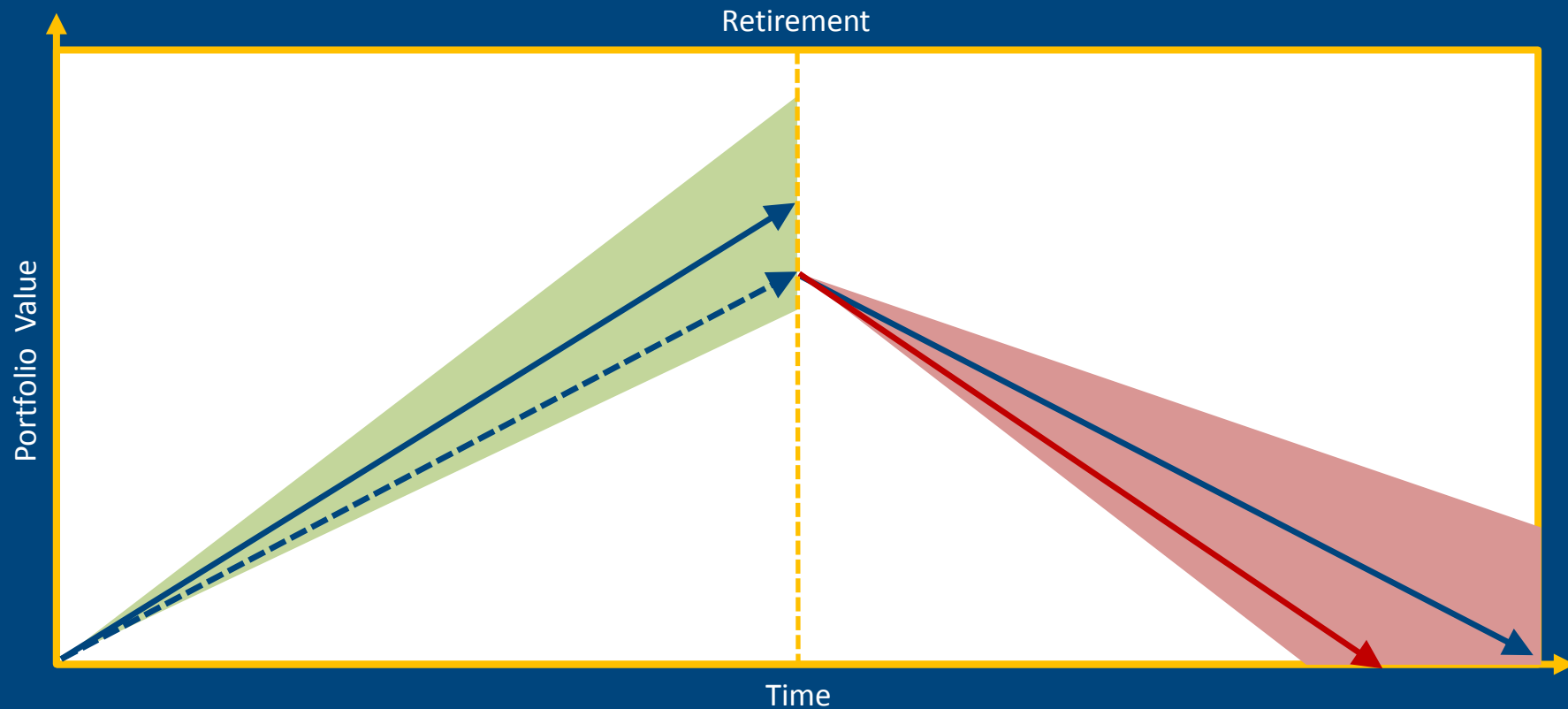
Investment Management Should Be...

- Goal-Driven
- Disciplined
- Rational
- Efficient
- Trustworthy

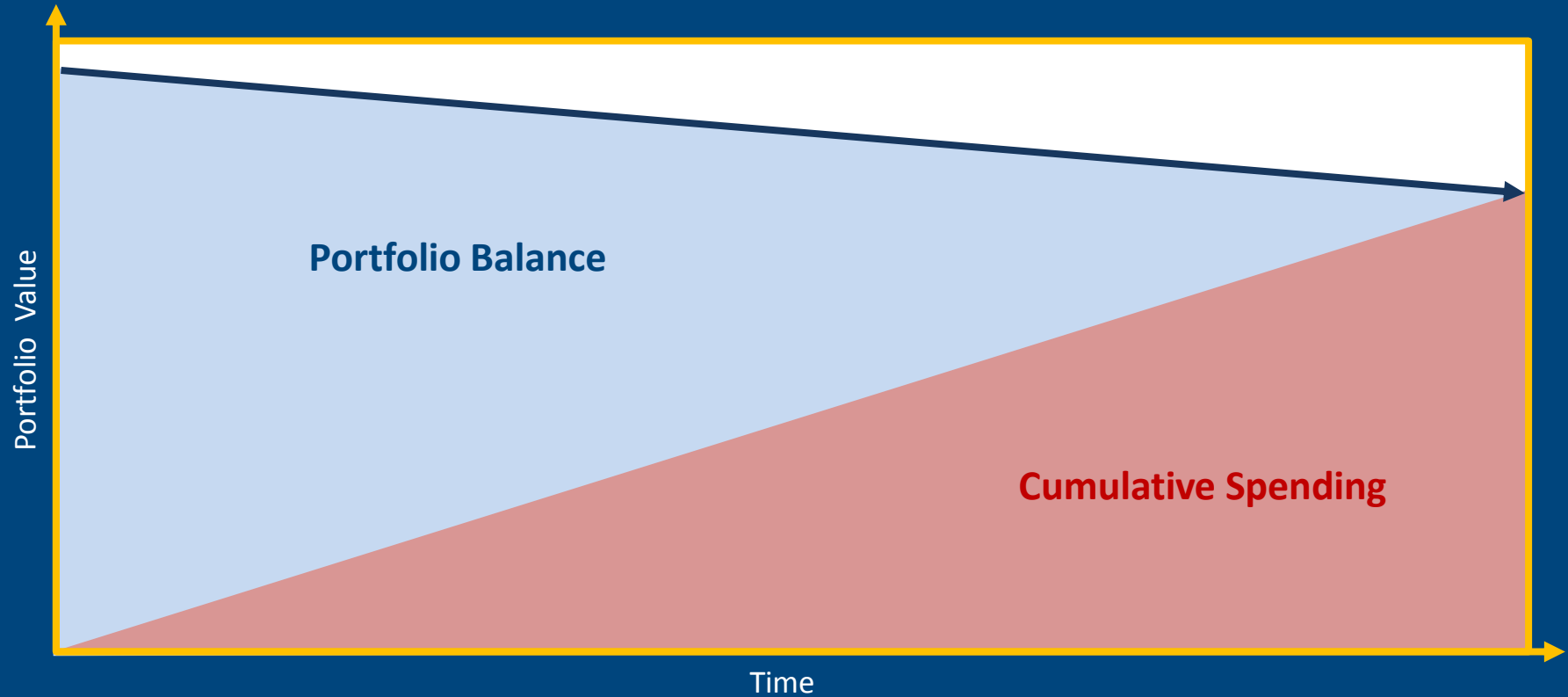
Unfortunately, It's Usually...

- Arbitrary
- Ad-Hoc
- Emotional
- Wasteful
- Unreliable

The Game Changes as You Approach Retirement



Ideal Plan – Constant Rate of Return



- Real Rate of Return Risk
- Return Sequence Risk (Volatility)

Sequence of Returns w/o Withdrawals

Year	Portfolio 1		Portfolio 2	
	Return	Balance	Return	Balance
1	+20%	\$ 12,000	-5%	\$ 9,500
2	+15%	\$ 13,800	-12%	\$ 8,400
3	+12%	\$ 15,500	-20%	\$ 6,700
4	+10%	\$ 17,000	+16%	\$ 7,800
5	+22%	\$ 20,700	+11%	\$ 8,600
6	+11%	\$ 23,000	+22%	\$ 10,500
7	+16%	\$ 26,700	+10%	\$ 11,600
8	-20%	\$ 21,400	+12%	\$ 12,900
9	-12%	\$ 18,800	+15%	\$ 14,900
10	-5%	\$ 17,900	+20%	\$ 17,900
Rate of Return		5.99%		5.99%

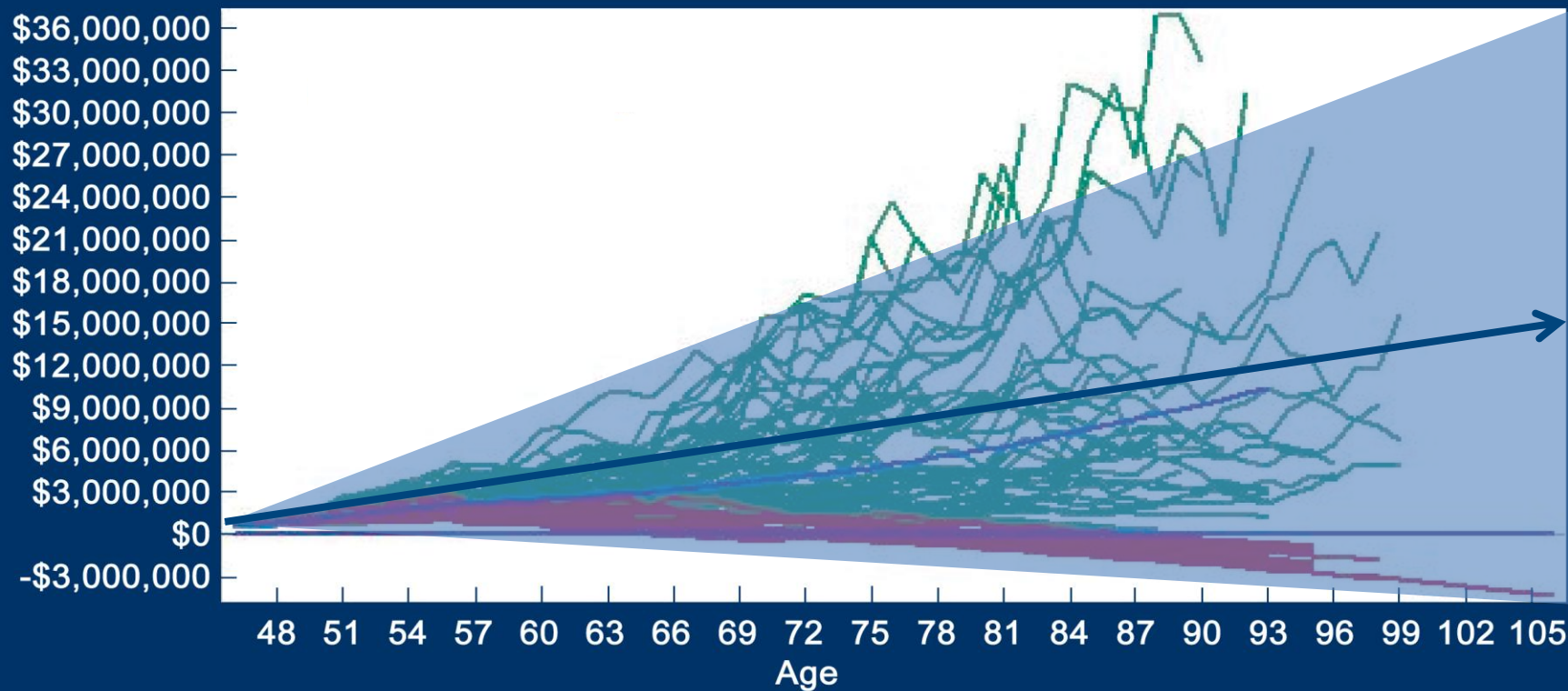
Assumes \$10,000 initial investment

Sequence of Returns w/ Withdrawals

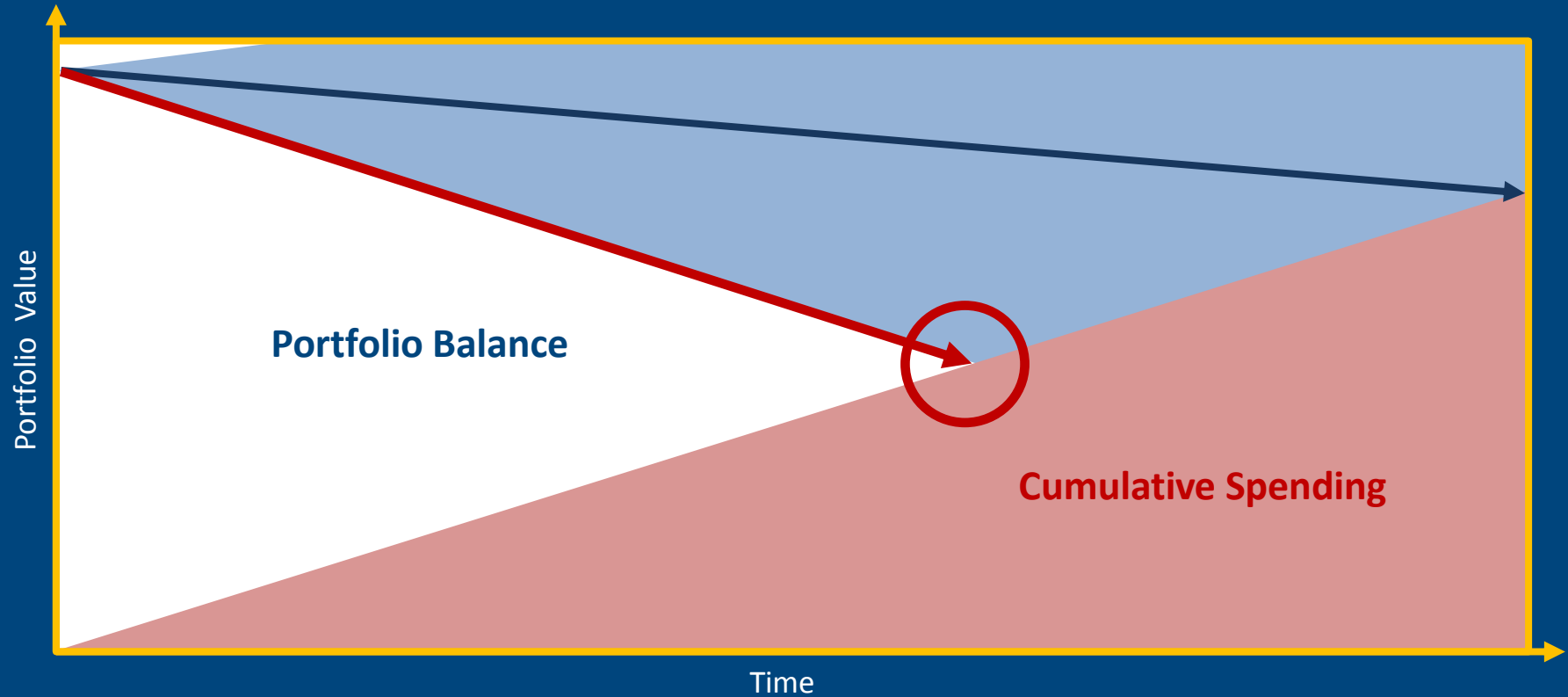
Year	Portfolio 1		Portfolio 2	
	Return	Balance	Return	Balance
1	+20%	\$ 11,500	-5%	\$ 9,000
2	+15%	\$ 12,700	-12%	\$ 7,400
3	+12%	\$ 13,800	-20%	\$ 5,400
4	+10%	\$ 14,600	+16%	\$ 5,800
5	+22%	\$ 17,300	+11%	\$ 5,900
6	+11%	\$ 18,800	+22%	\$ 6,800
7	+16%	\$ 21,300	+10%	\$ 6,900
8	-20%	\$ 16,500	+12%	\$ 7,300
9	-12%	\$ 14,000	+15%	\$ 7,800
10	-5%	\$ 12,800	+20%	\$ 8,900

Assumes \$10,000 initial investment and \$500 annual withdrawals

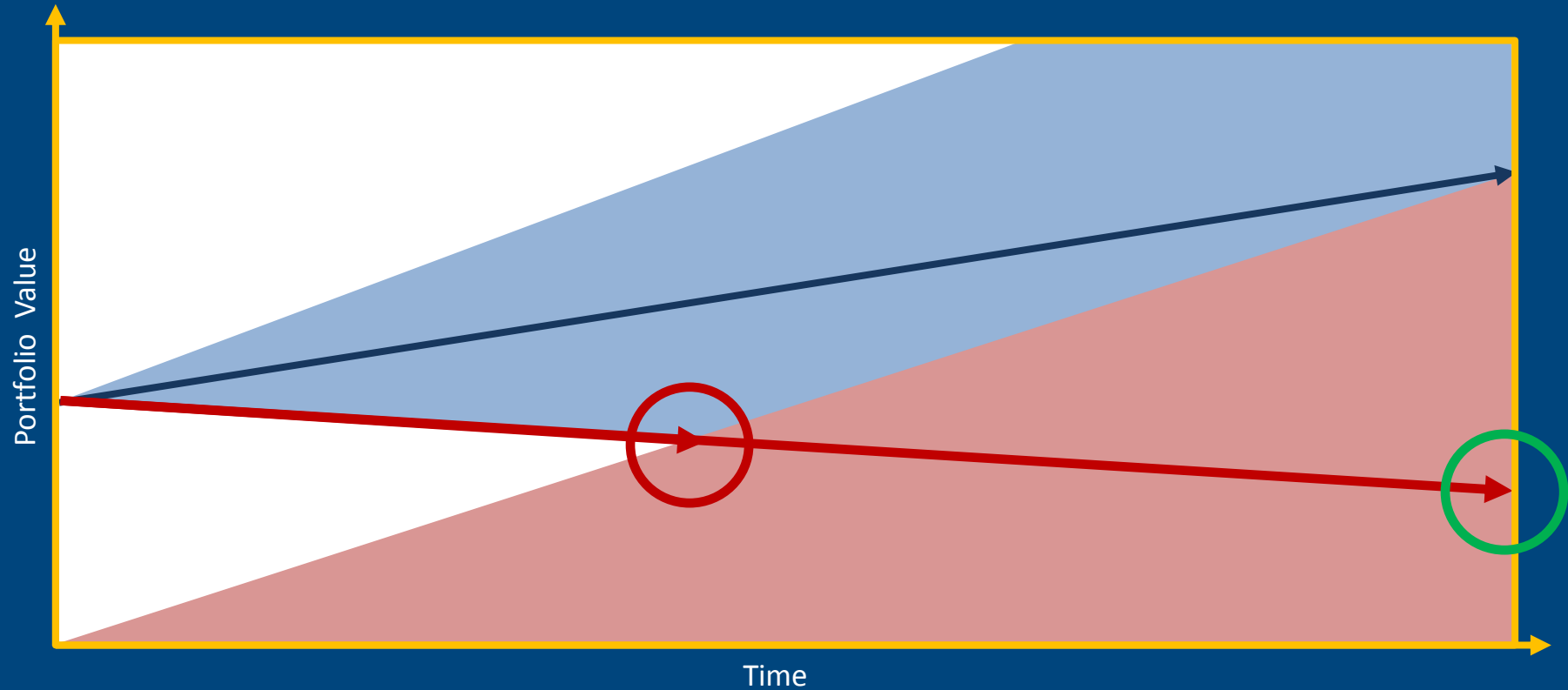
Same Plan – Many Possible Outcomes



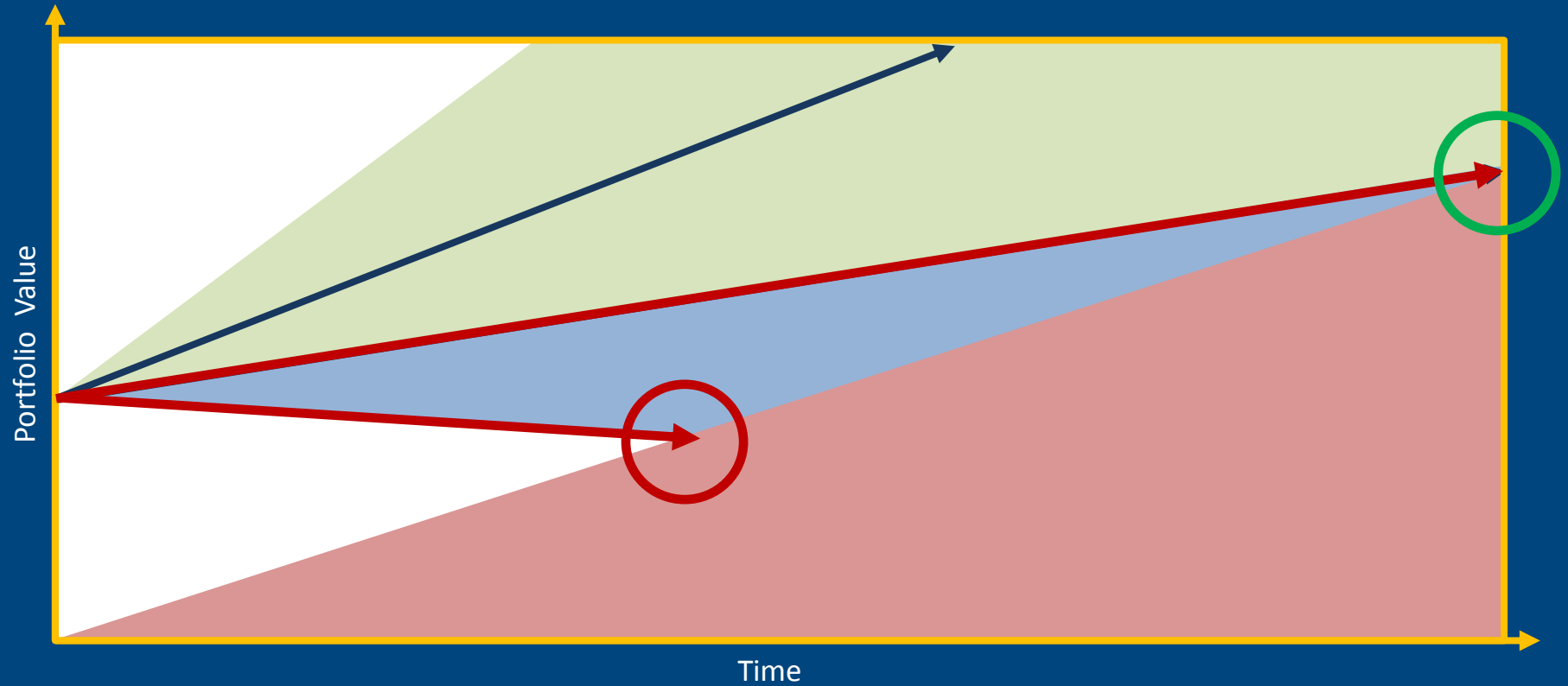
The Effect of Investment Risk



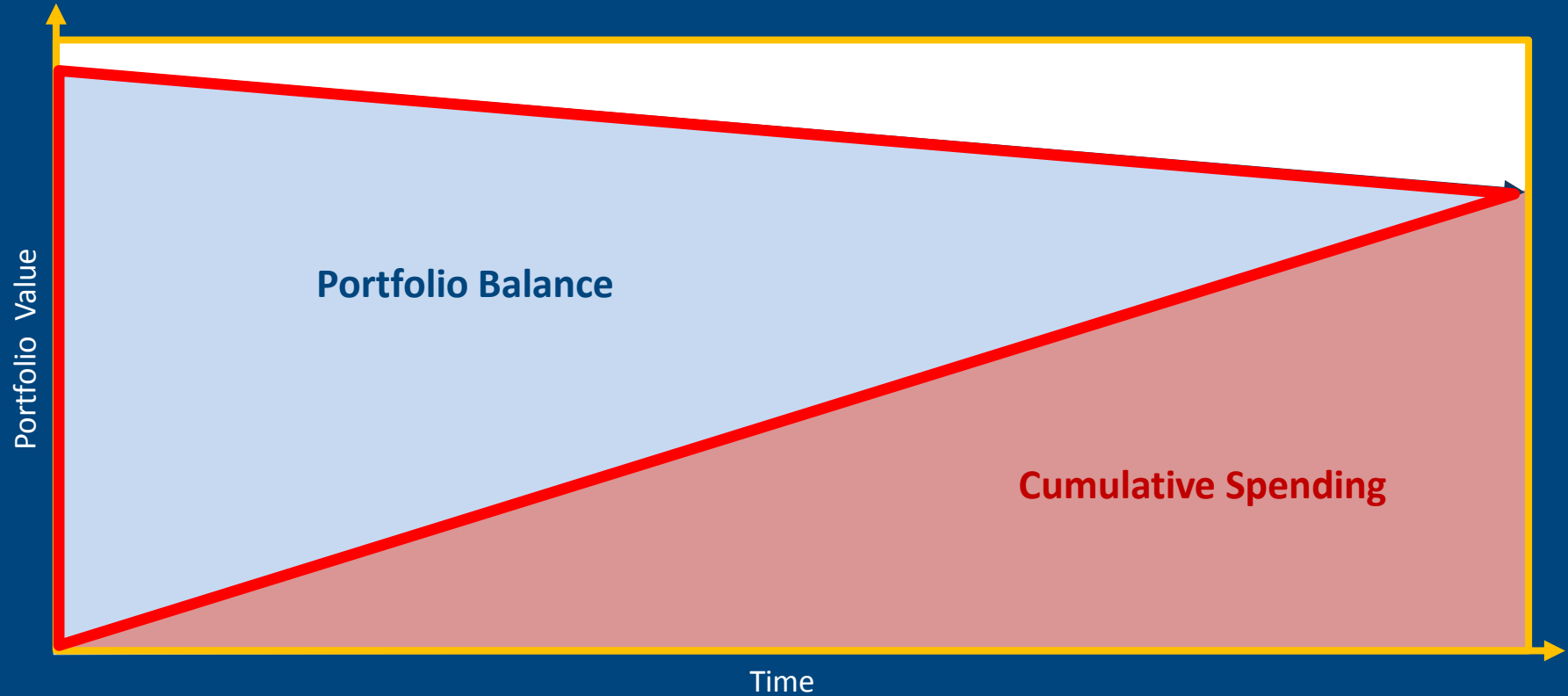
Possible Solutions – Reduce Spending



Possible Solutions – Adjust Investment Strategy



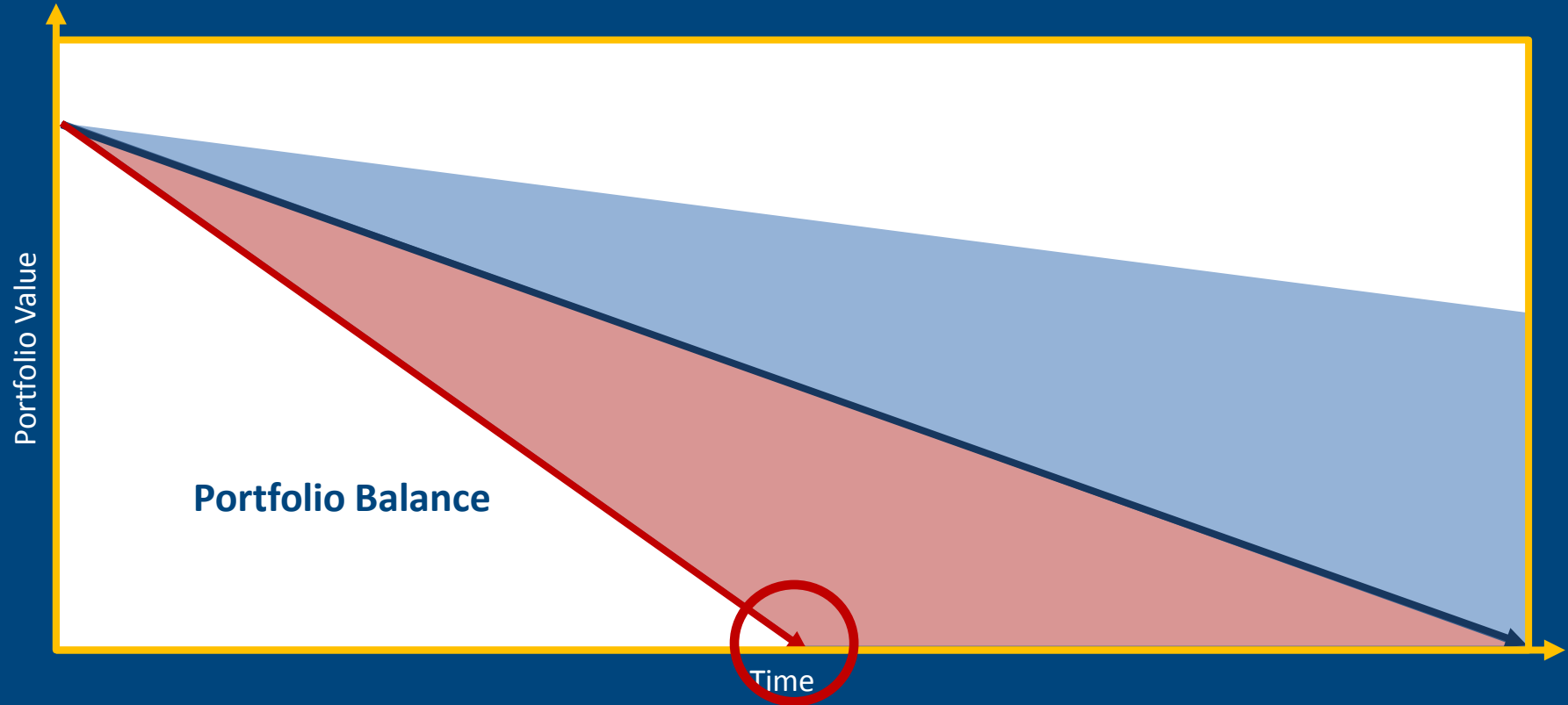
Ideal Plan – Constant Rate of Return



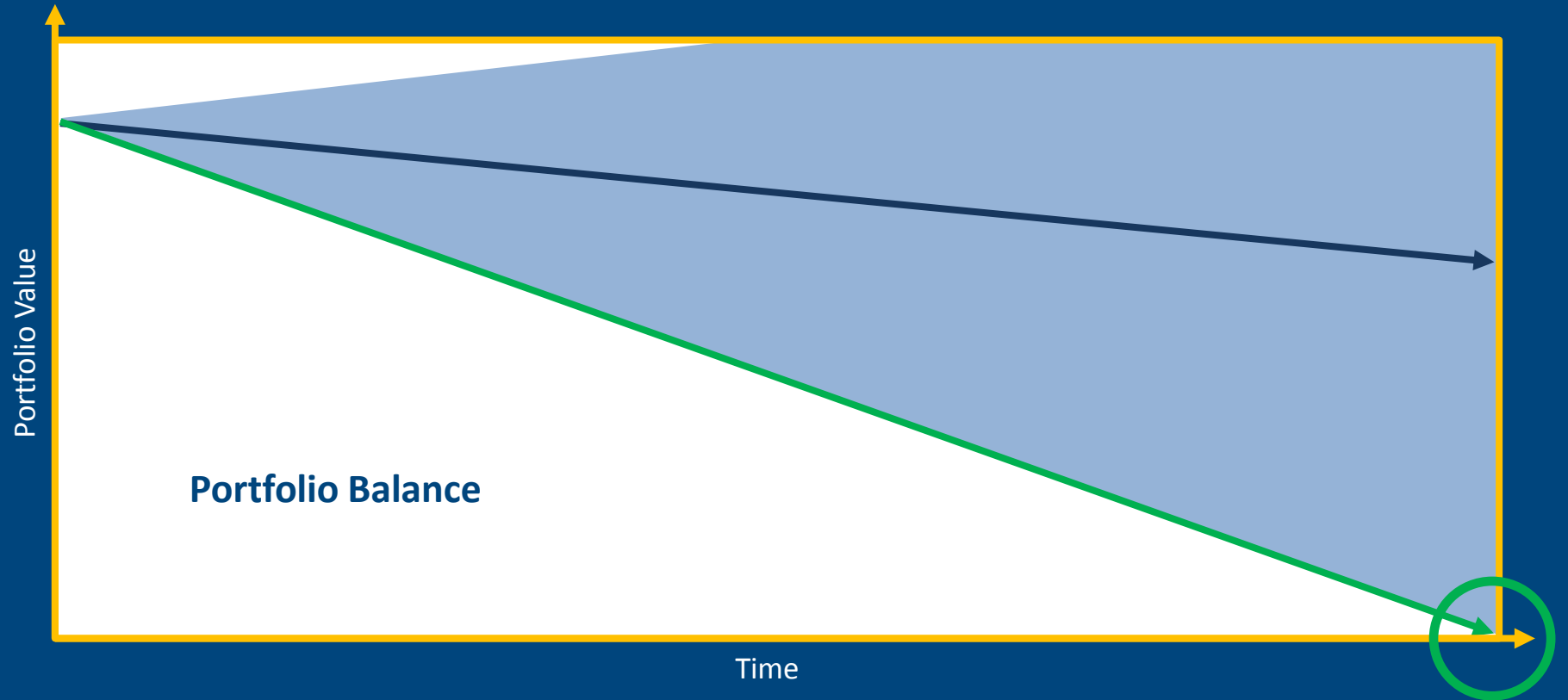
Ideal Plan – Constant Rate of Return



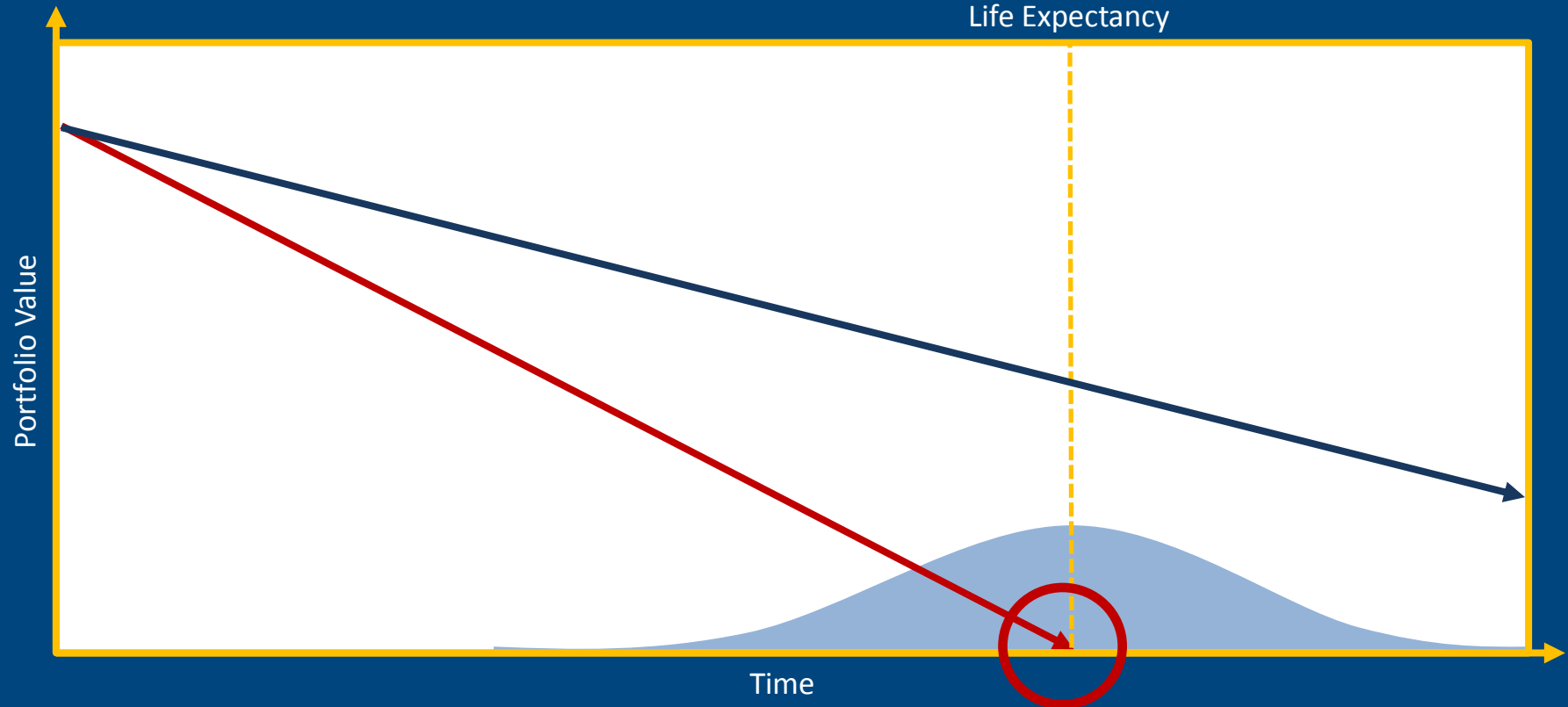
The Effect of Investment Risk



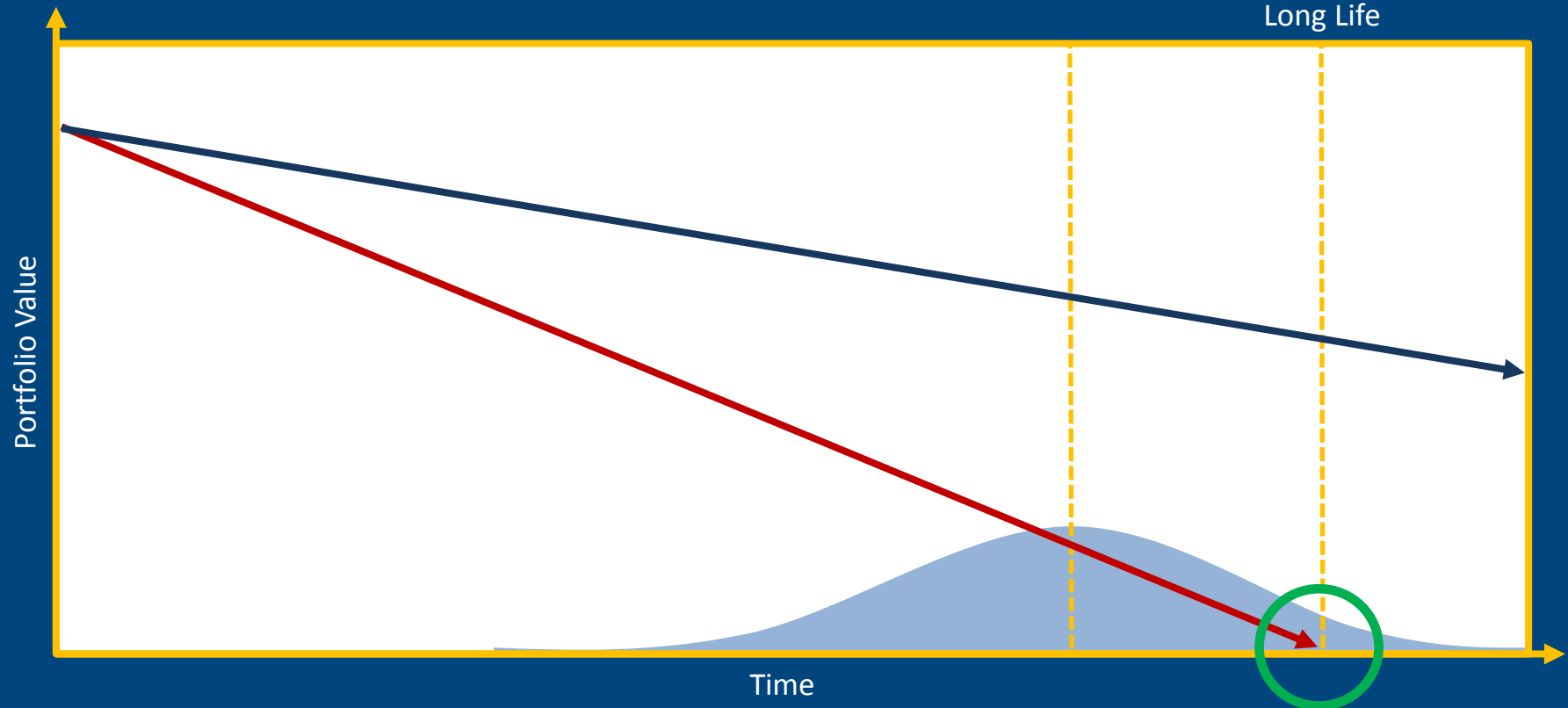
Optimal Solution



Longevity Risk



Optimal



Success in Retirement Investing

Producing the cash flow necessary to support your desired lifetime standard of living while maintaining at least your minimum wealth requirement

Measuring Investment Success

- Select an Appropriate Investment Strategy
- Maintain Reasonable Expectations for Performance
- Benchmark Your Results Against Those Expectations

Homework

- Consider Your Goals for Standard of Living and Terminal Wealth
- Base Your Definition of Investment Success on Achieving These Goals
- Evaluate Your Current Investment Management Program

Next Week's Webinar

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Portfolio Performance

