

Managing Investment Costs

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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

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

Setting Investment Performance Expectations

Performance

- Return
- Risk

Importance

1. Expectations
2. Assumptions
3. Analysis
4. Decisions
5. Performance
6. Results

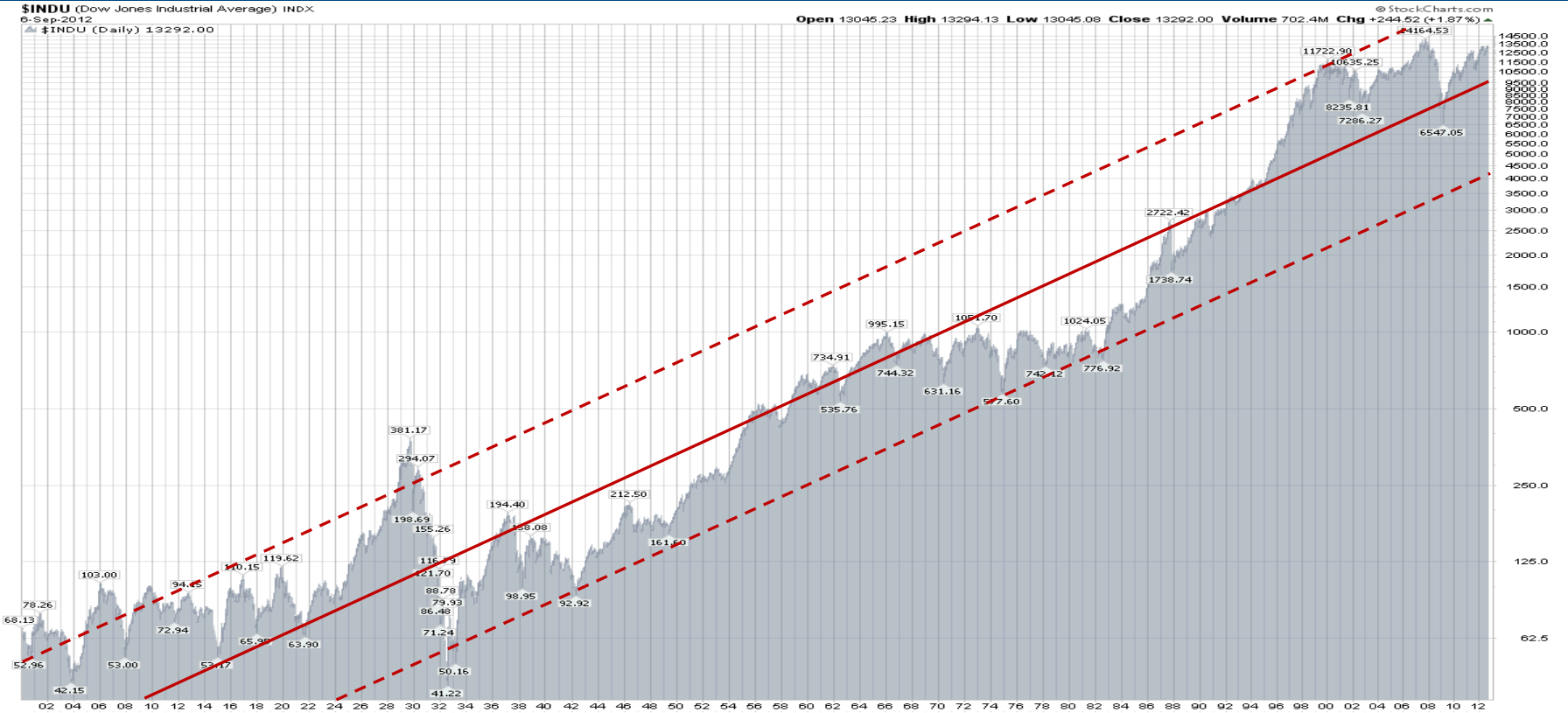
S&P 500 – 1 Week



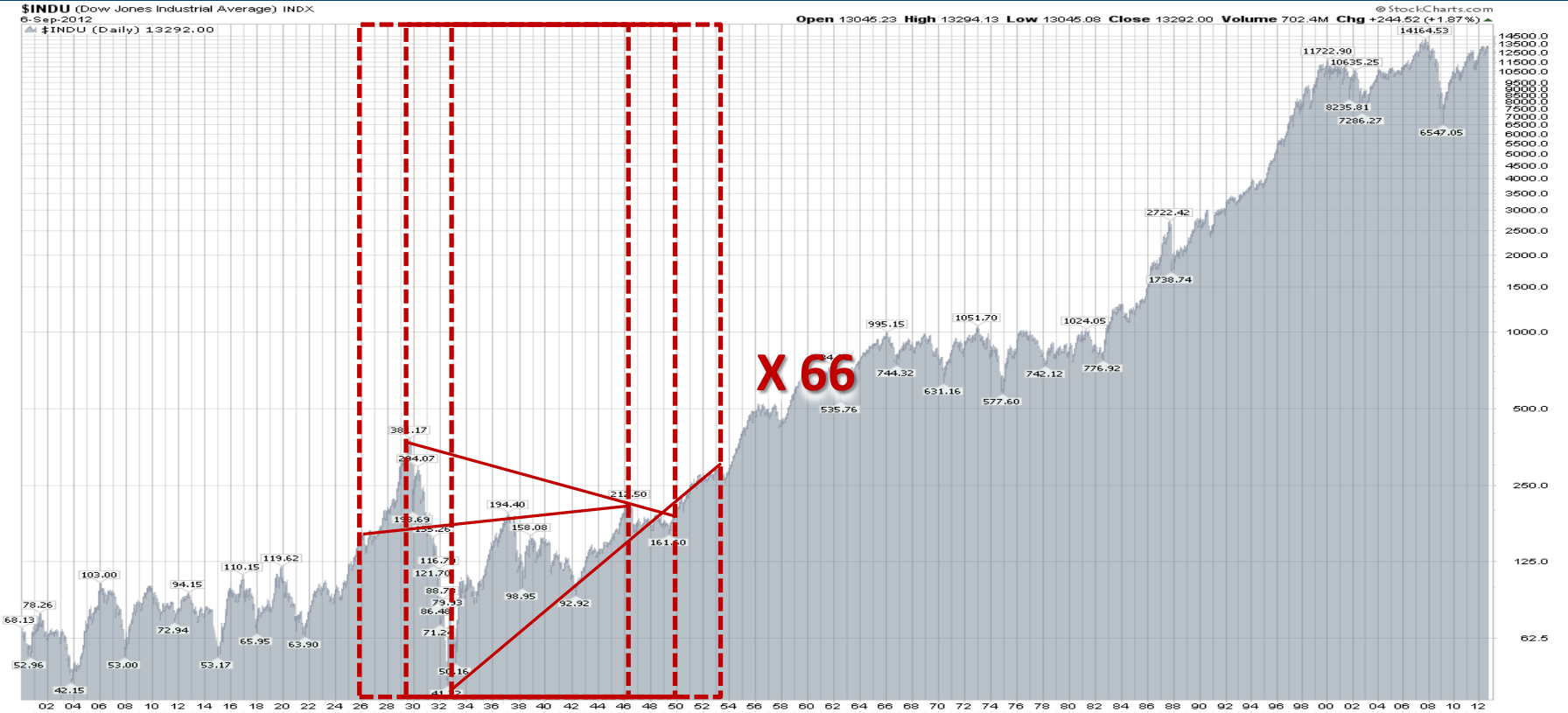
S&P 500 – 62 Years



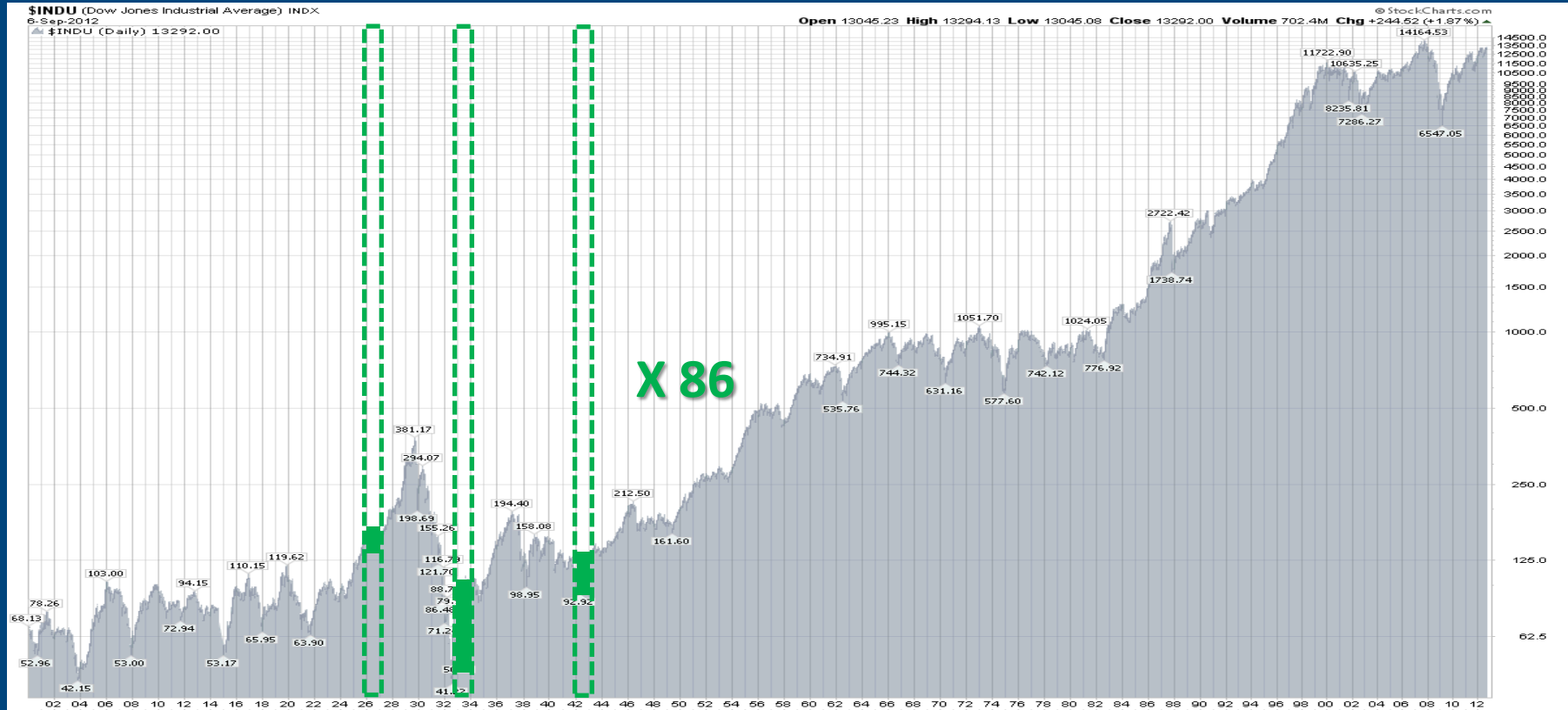
Dow Jones Industrial Average



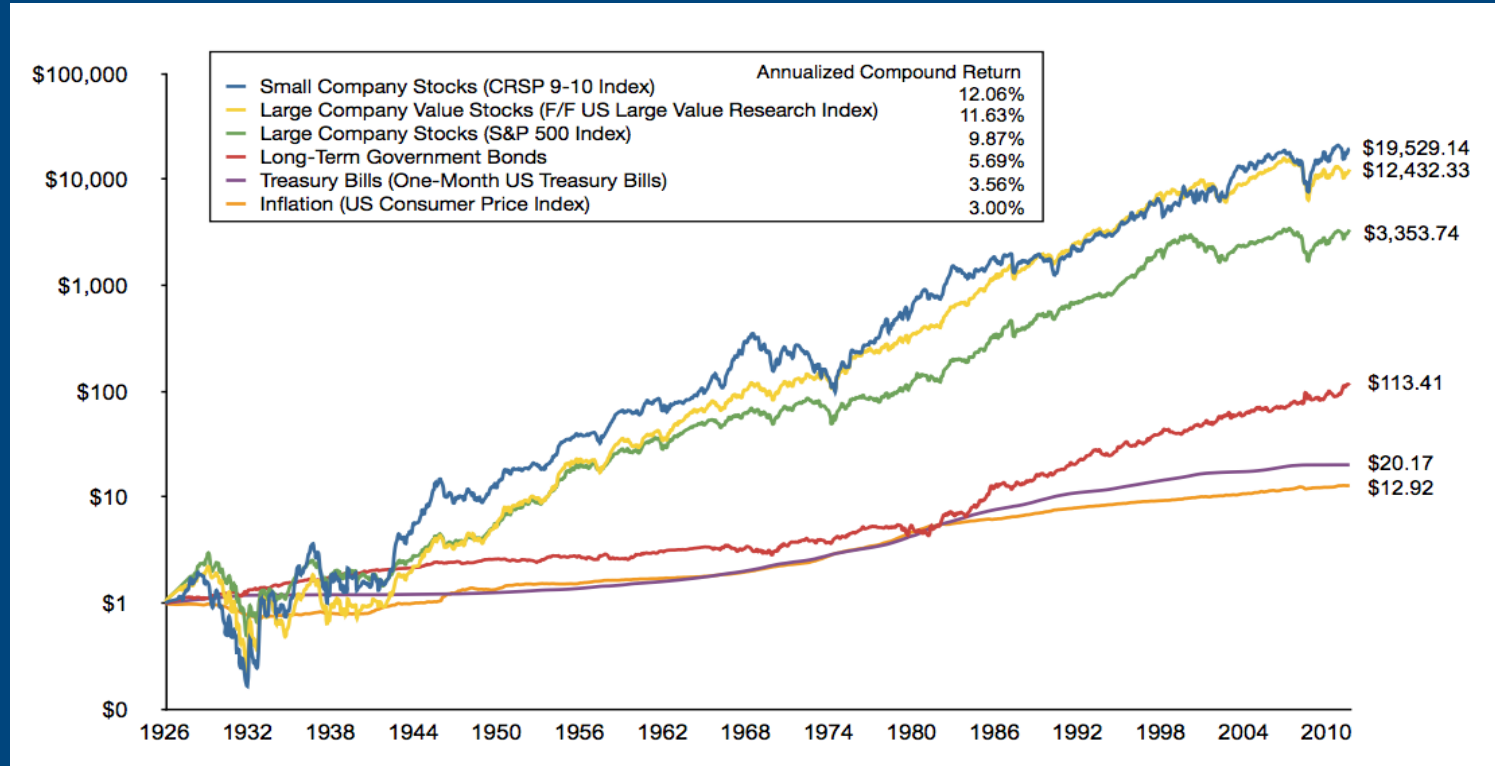
Estimating Rate of Return



Standard Deviation



Long-Term Market History



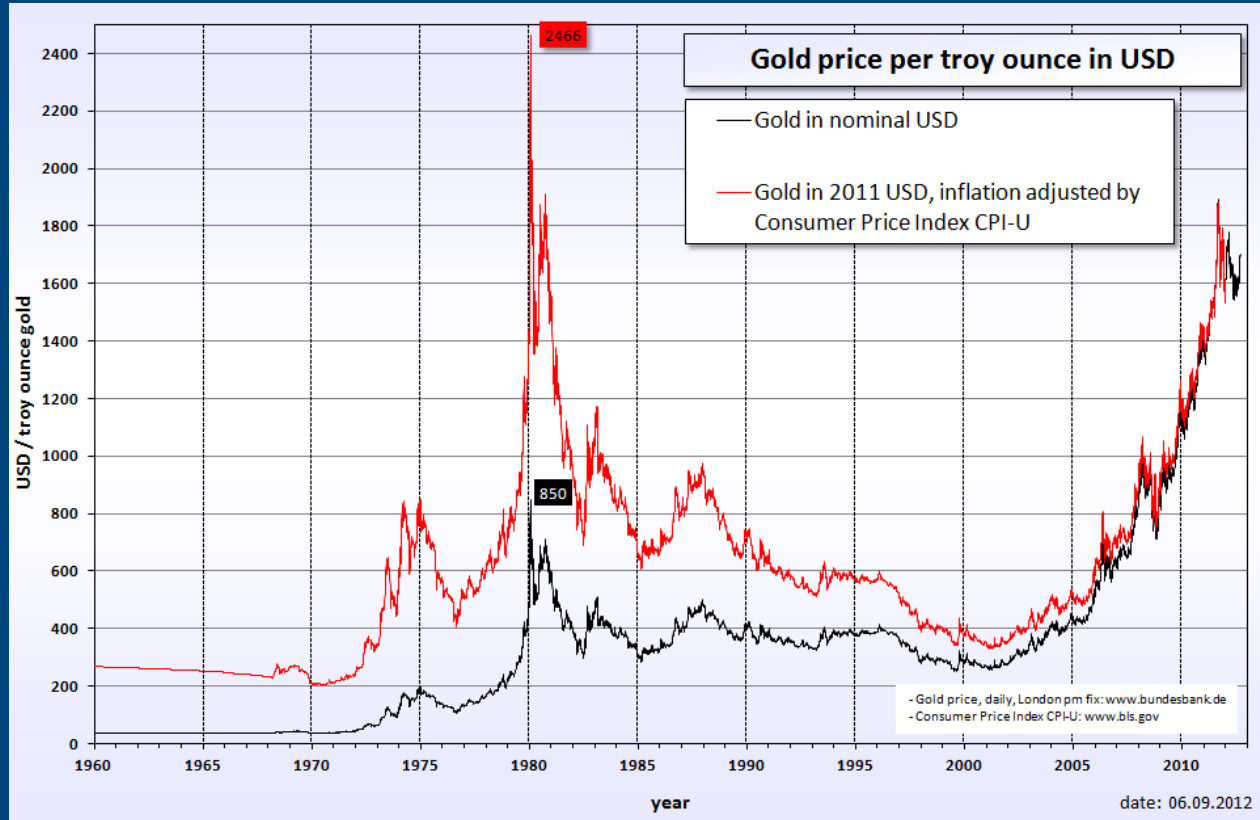
S&P 500 vs. Long-Term Treasury Bonds – 5 Years



S&P 500 vs. Long-Term Treasury Bonds – 5 Years



Gold – 52 Years



Not all methods of setting expectations are equally reliable.

Some are more reliable (and useful) than others.

Always find and use the most reliable method.

Watch out for confirmation bias.

Managing Investment Costs

Financial Planning and Management



- Wants
- Needs

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

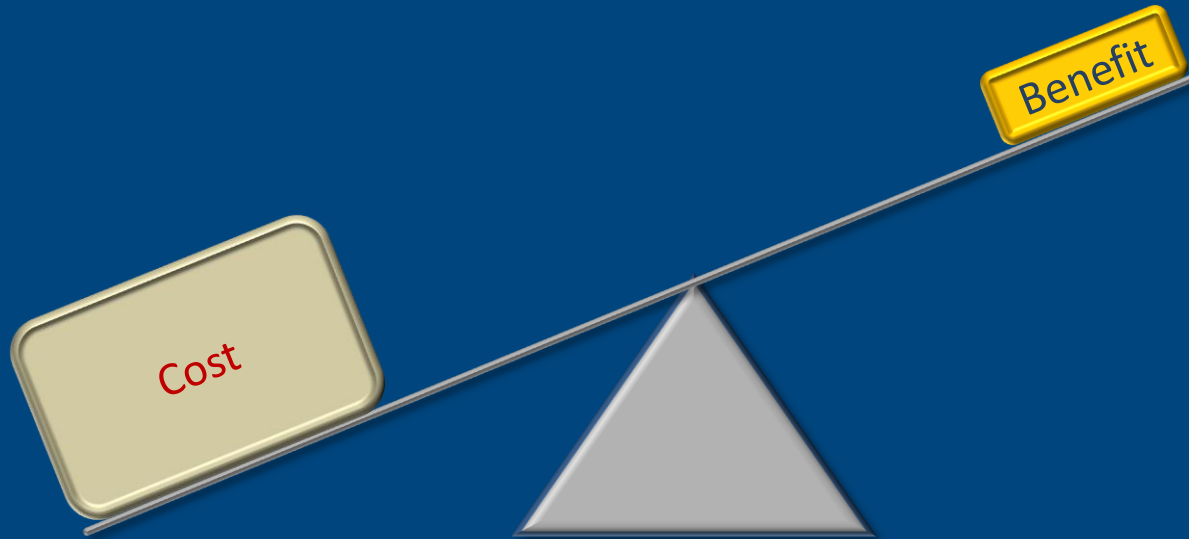
- **Action**
 - Constraints
- **Decisions**
- **Analysis**
 - Assumptions
 - Experience
 - Probabilities
 - Estimates

- **Risk**
- **Return**

- Cash Flow
- Wealth

Inflation & Taxes

Cost-Heavy Investing



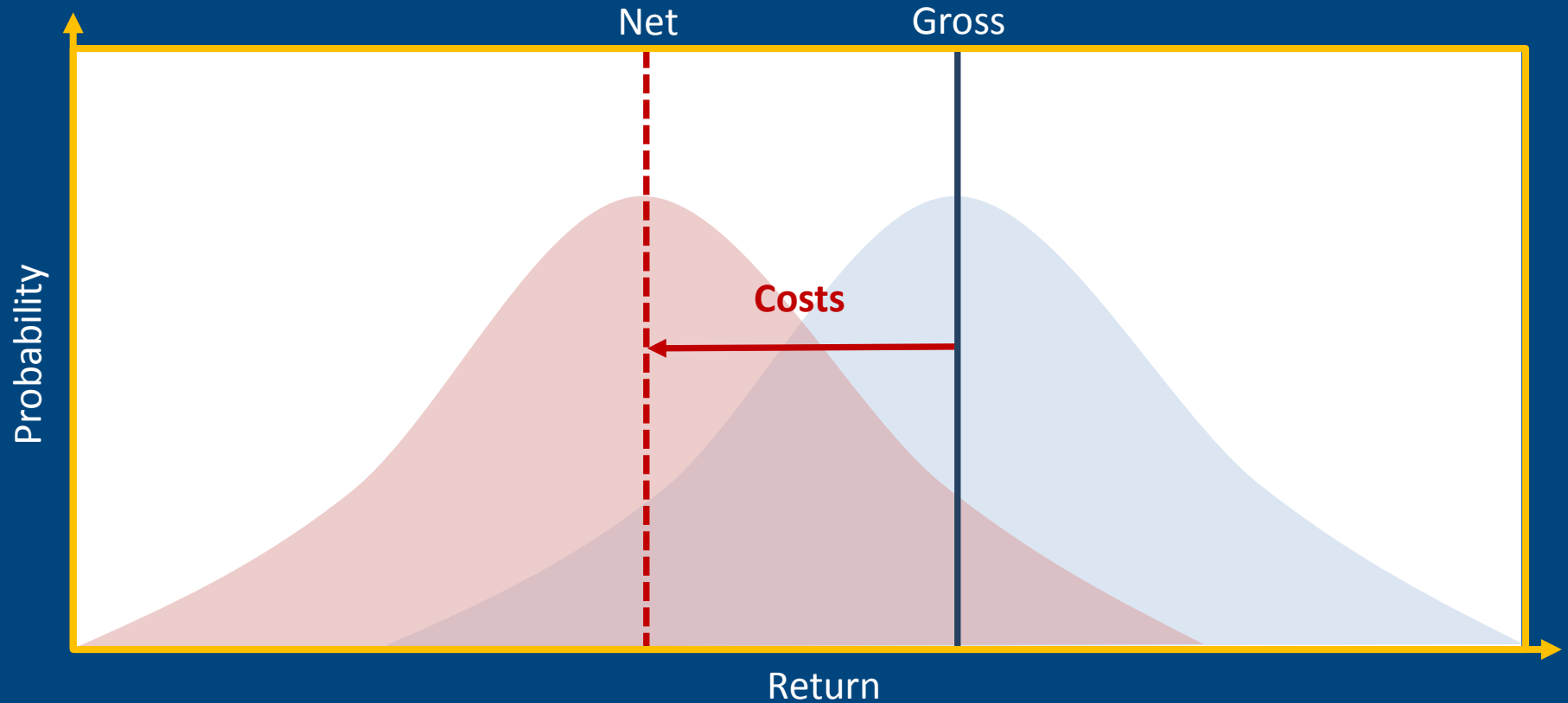
Cost-Neutral Investing



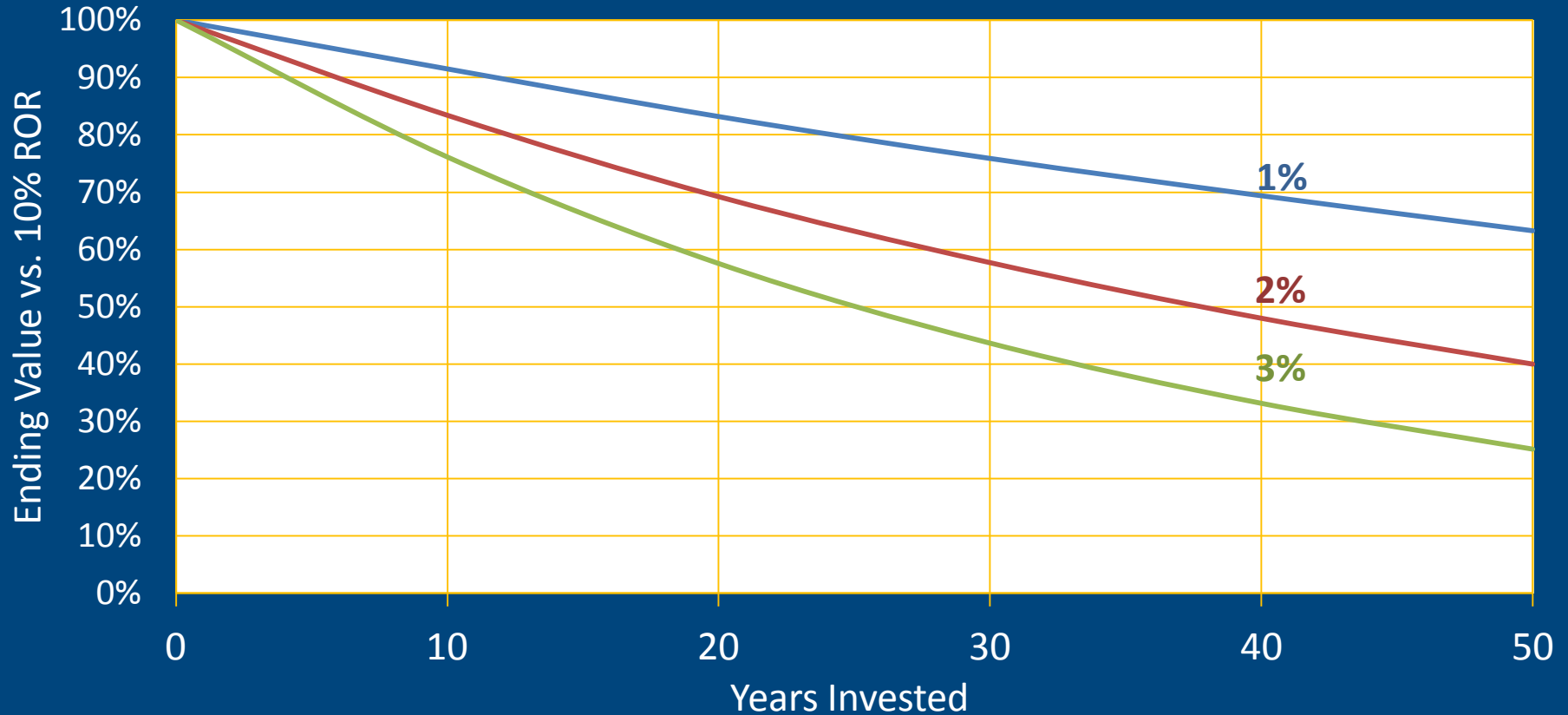
Cost-Effective Investing



The Effect of Excess Costs on Expected Return



The Effect of Excess Costs on Expected Value



Types of Investment Costs

Category	Description	Example
Selling	Convincing You to Buy	Loads, 12b-1 Fees, DCSC
Administration	Business Overhead	Expense Ratios
Navigation	Planning and Analysis	Fees
Performance	Securities Selection and Timing	Expense Ratios
Transactions	Brokerage Commissions	Trading Commissions
Taxes	Excess Taxes Generated By Turnover	1099
Lifestyle	Reduced Standard of Living	Underperformance

Investment Costs - Mutual Fund Example

Investment Cost	Annual
Selling	0.25%
Administration	0.40%
Navigation	
Performance	1.00%
Transactions	0.10%
Taxes	1.30%
Lifestyle	
Total	3.05%

Investment Costs – Deferred Variable Annuity Example

Investment Cost	Annual
Selling	1.00%
Administration	1.00%
Navigation	
Performance	1.00%
Transactions	0.10%
Taxes	1.30%
Lifestyle	
Total	4.40%

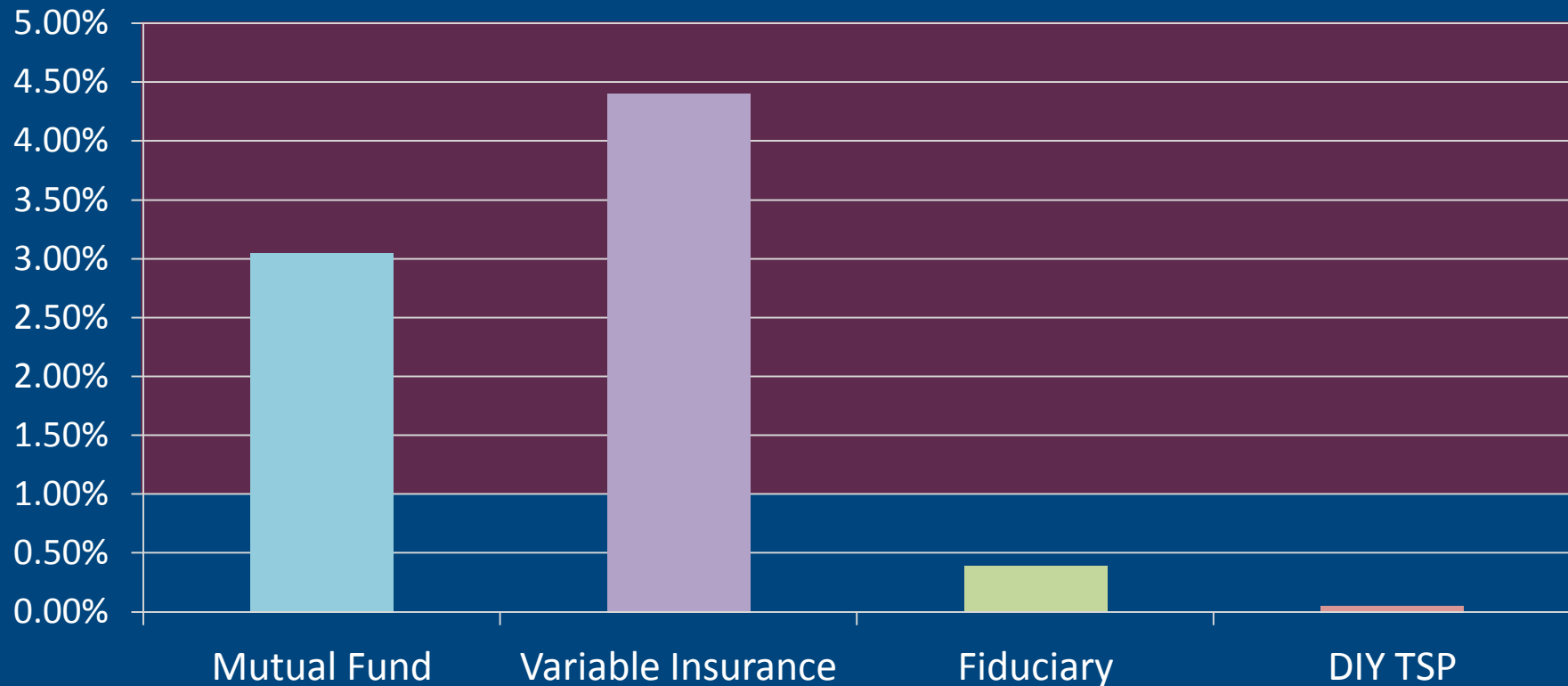
Investment Costs – Low-Cost Fiduciary Example

Investment Cost	Annual
Selling	0.00%
Administration	0.12%
Navigation	0.17%
Performance	0.08%
Transactions	0.02%
Taxes	0.00%
Lifestyle	
Total	0.39%

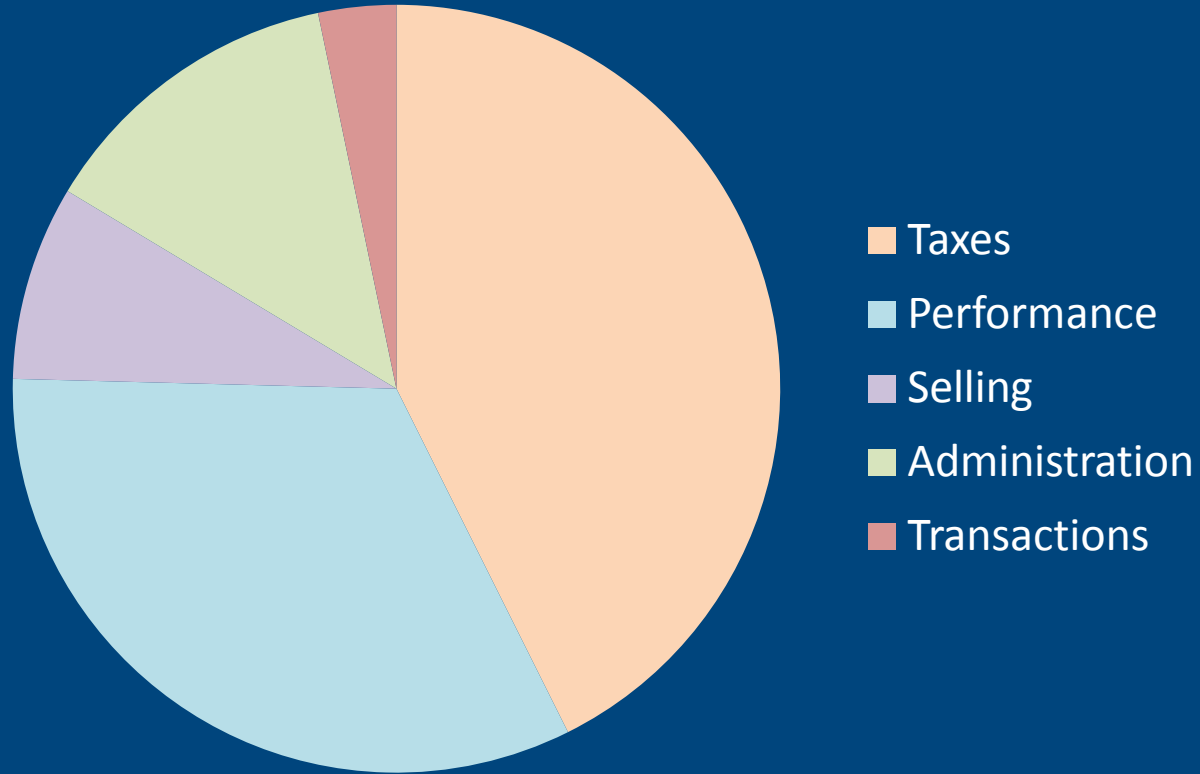
Investment Costs – DIY TSP Example

Investment Cost	Annual
Selling	0.00%
Administration	0.05%
Navigation	0.00%
Performance	0.00%
Transactions	0.00%
Taxes	0.00%
Lifestyle	
Total	0.39%

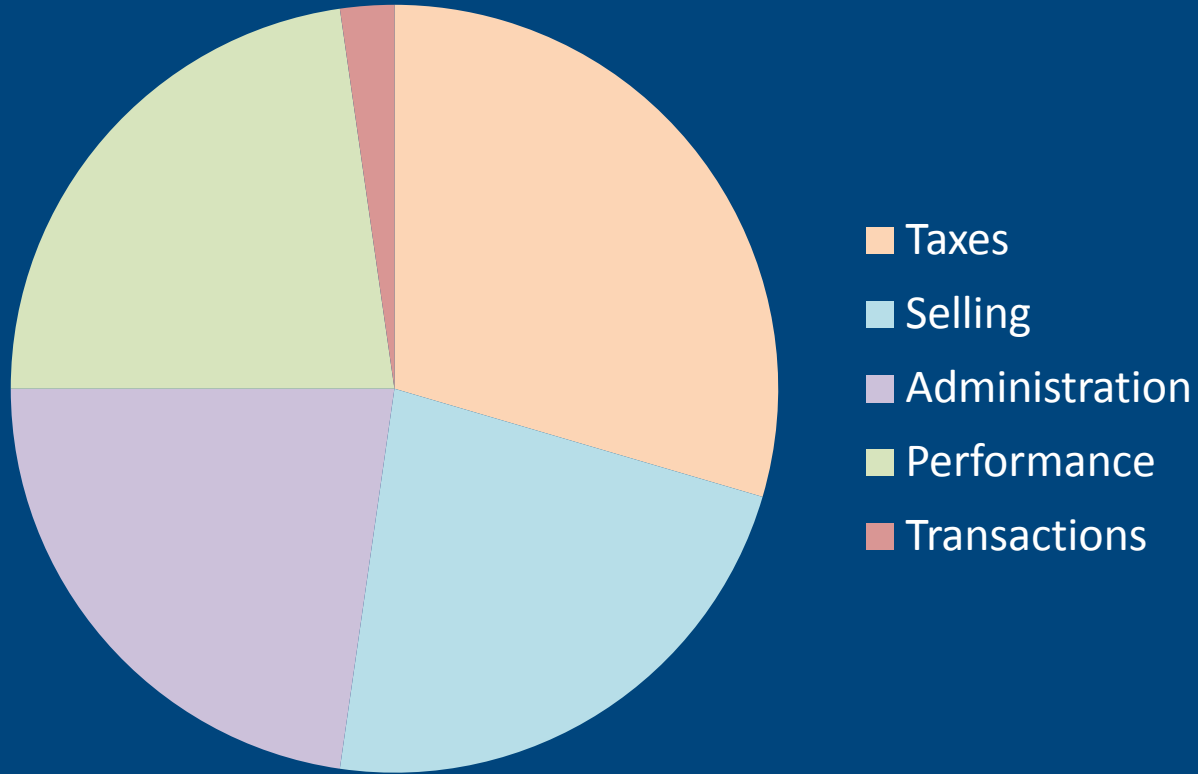
Investment Costs Comparison



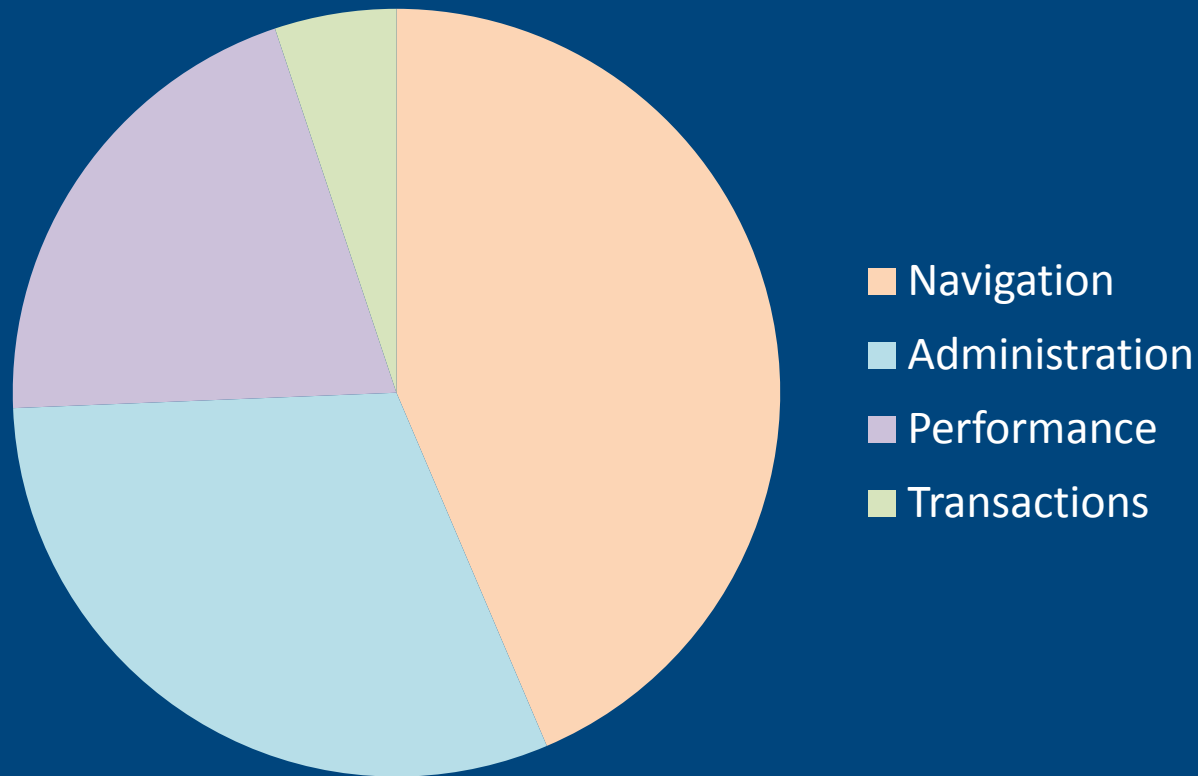
Investment Cost Allocation - Mutual Fund Example



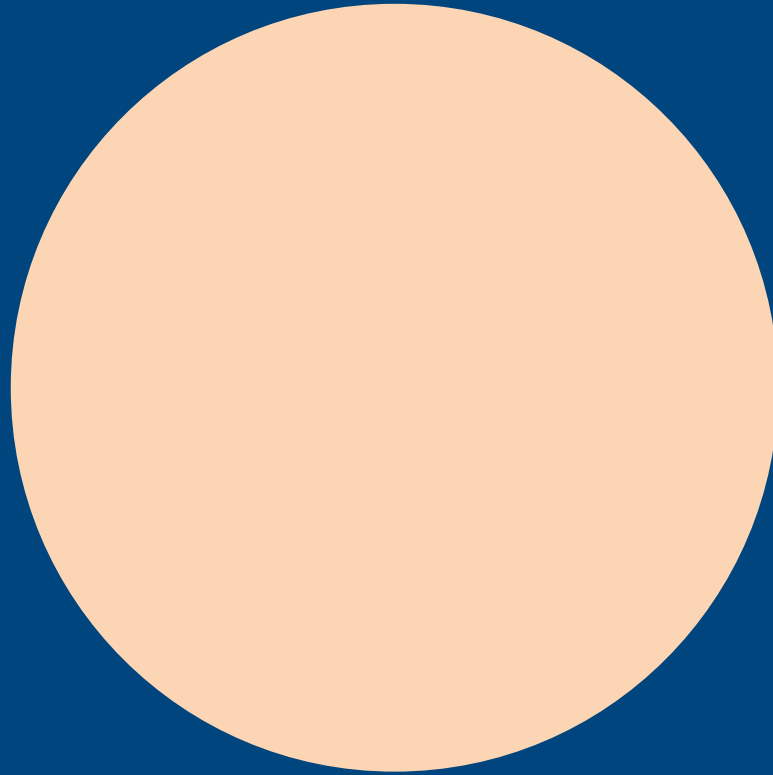
Investment Cost Allocation – Deferred Variable Annuity Example



Investment Cost Allocation – Low-Cost Fiduciary Example











Investment Cost Allocation – DIY TSP Example



■ Administration

Example Summary

Program	Total Cost	Cost Allocation
Managed Mutual Fund w/ Advisor		
Deferred Variable Annuity w/ Advisor		
Low-Cost Fiduciary		
DIY TSP		

The success of your retirement investment program depends upon how much you spend ...

Conclusions

... and how you spend it.

Next Week's Webinar

1. Success and Failure in Retirement Investing
2. Defining Retirement Resources, Goals and Constraints
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