

Managing Portfolio Liquidity

- 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

Fundamentals of Investing for Retirement Income

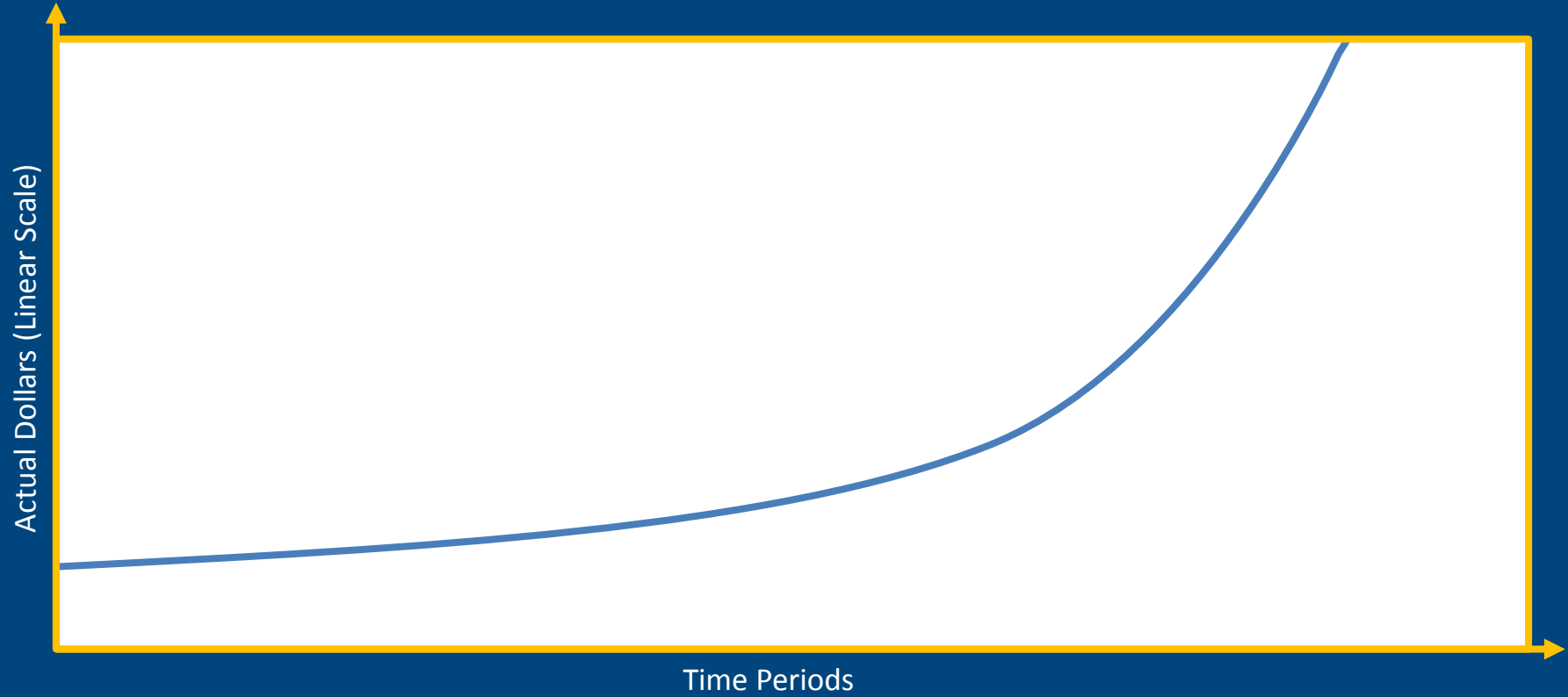
1. Success and Failure in Retirement Investing
2. Defining Retirement Resources, Goals and Constraints
3. Understanding Investment Risk and Return
4. How Diversification Really Works
5. Asset Classes and Types – Diversification and Concentration
6. Understanding Asset Allocation and Hedging
7. Setting 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

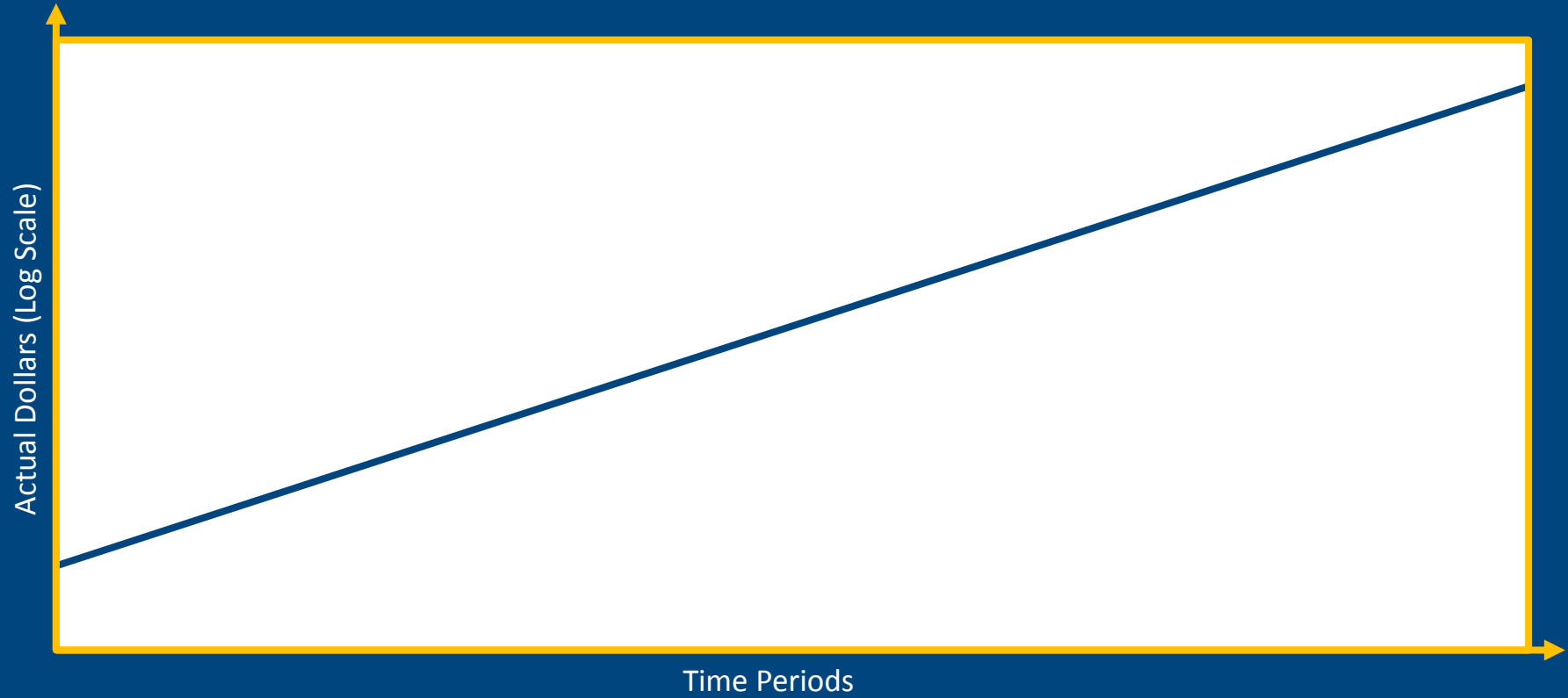
- Free Hour of Consulting / Analysis
 - \$250 Vantage Discount
- Email Questions to me at mmiles@variplan.com

Accounting for Inflation in Retirement Planning

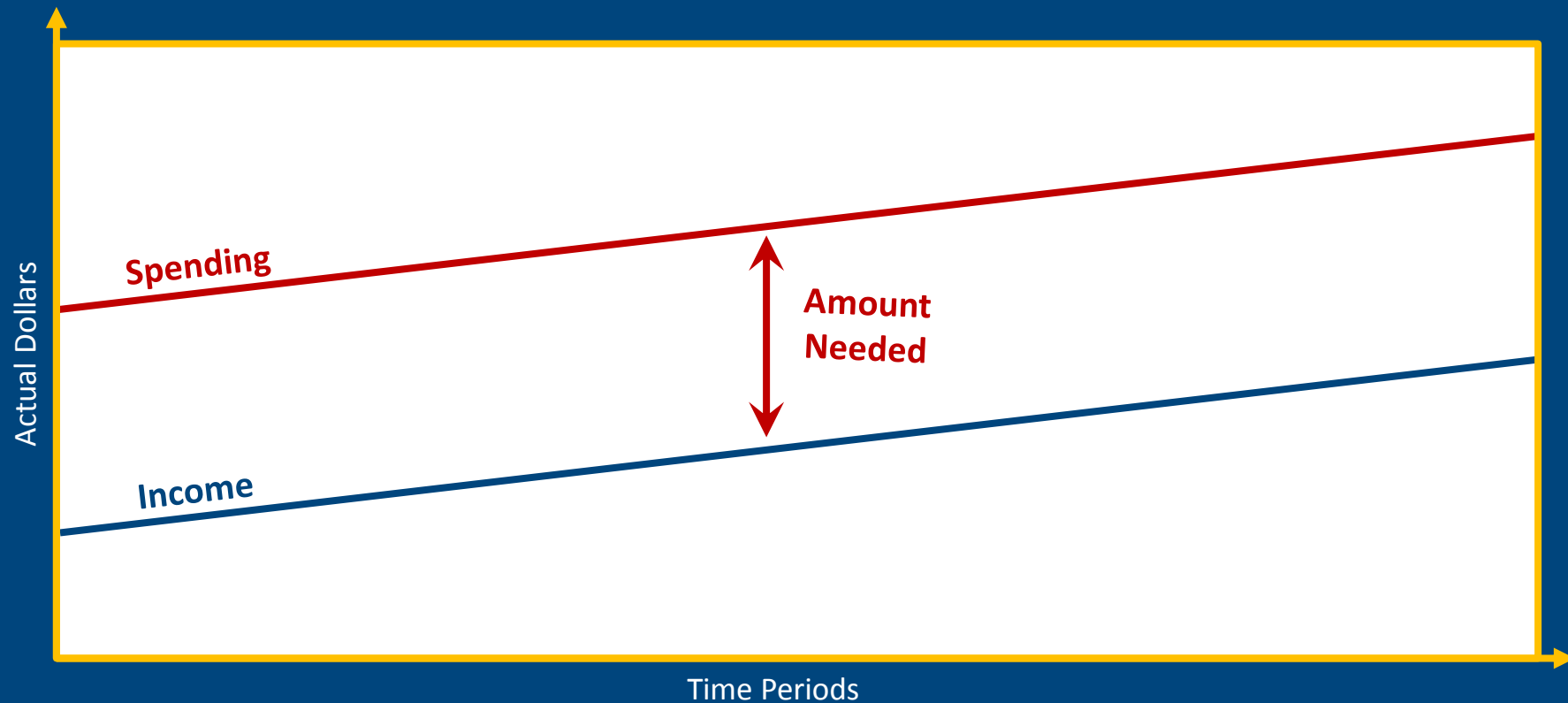
Inflation



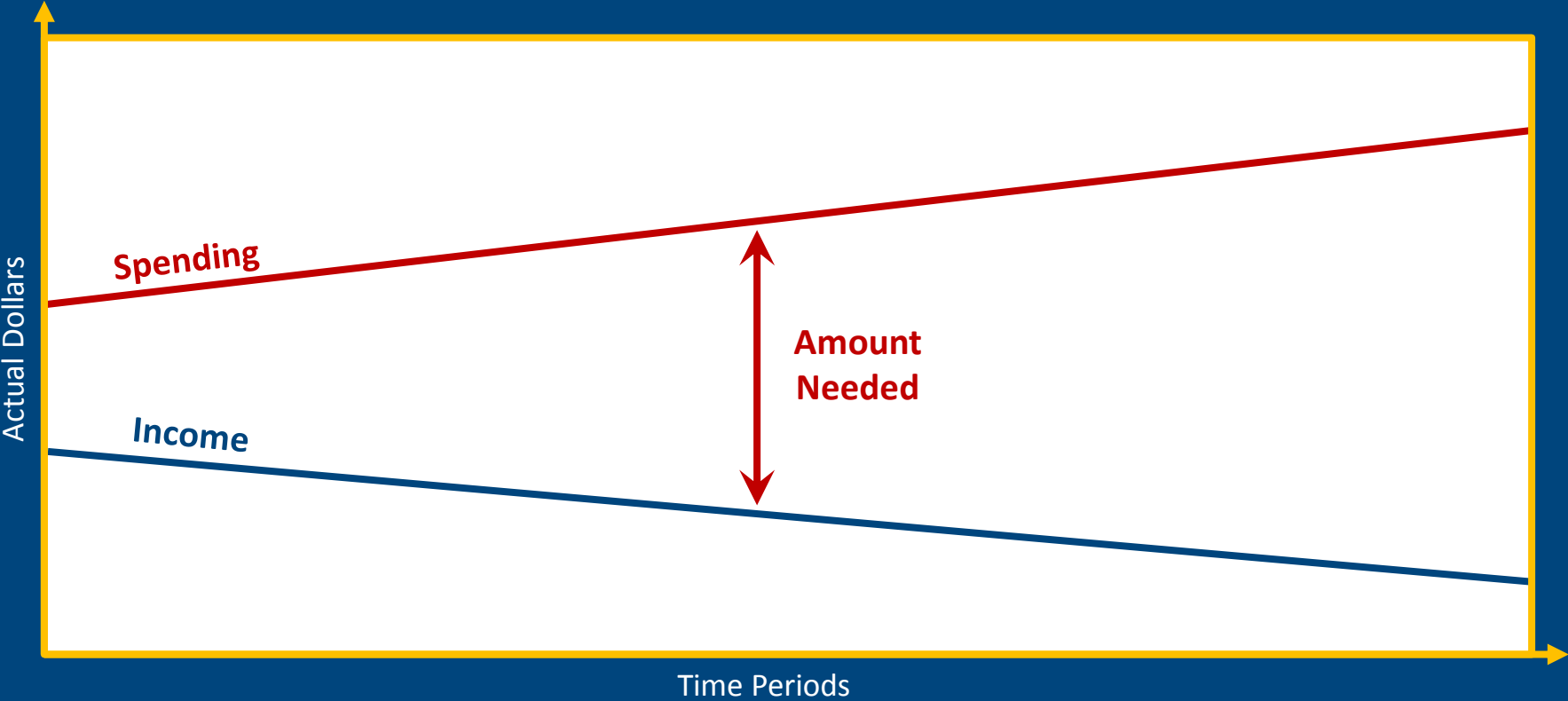
Inflation



Estimating Portfolio Cash Flows



Estimating Portfolio Cash Flows



Discounting for Inflation

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

R_i = Inflation Rate

n = Number of Periods

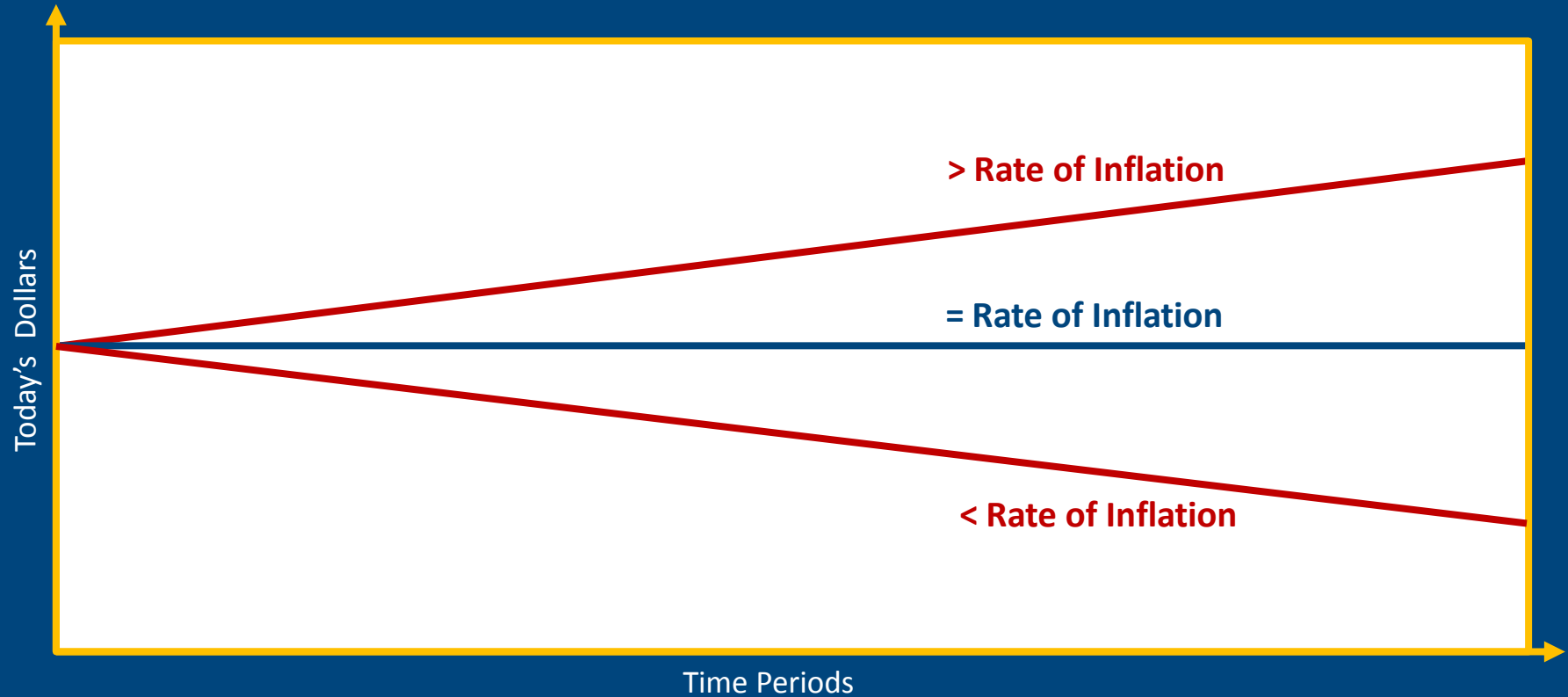
Discounting for Inflation

$$\text{Future Value} = \text{Present Value} \times (1+R_i)^n$$

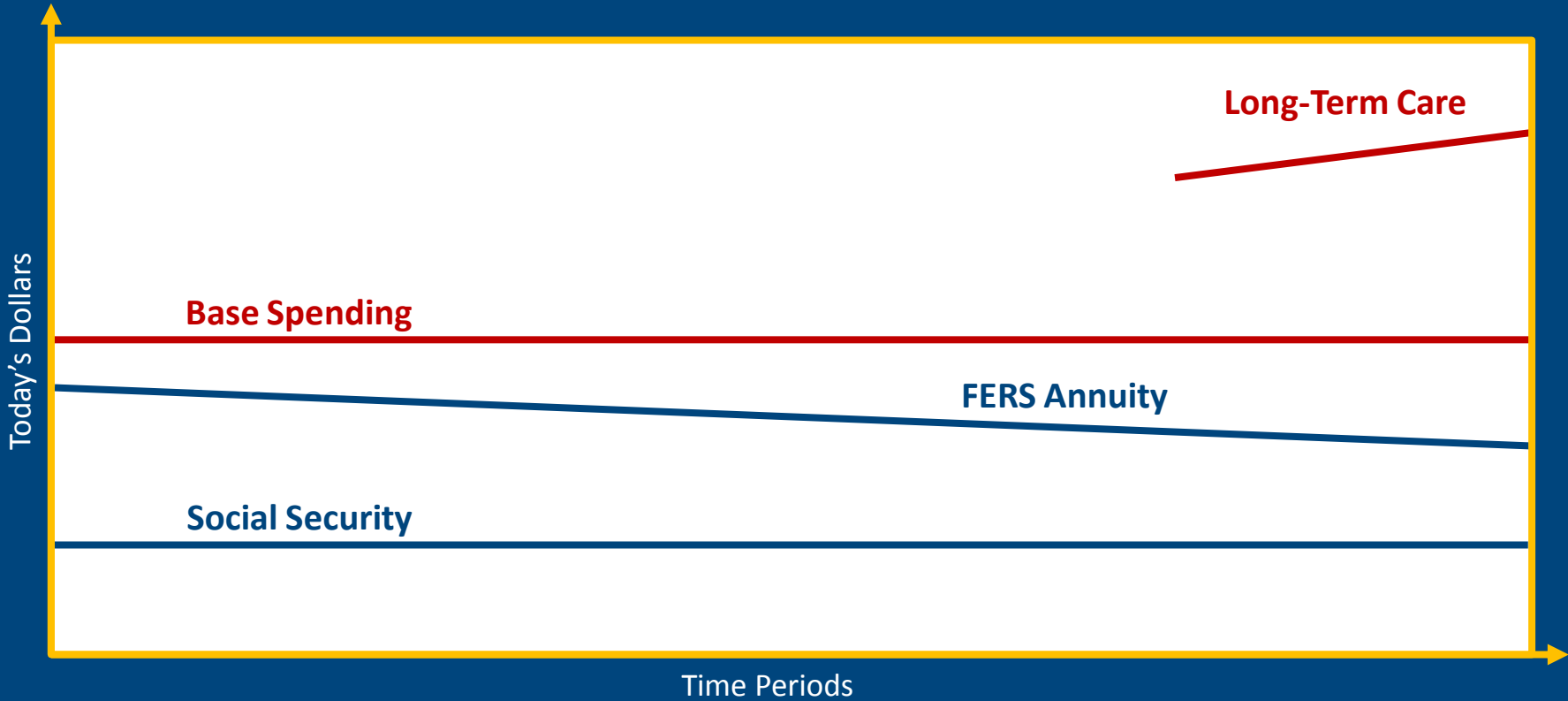
R_i = Inflation Rate

n = Number of Periods

Discounting for Inflation



Estimating Portfolio Cash Flows



Proprietary Assumptions

Asset Type	Expected Gross Annual Return	Base Rate of Inflation	Expected Gross Real Return
Large Cap US Stocks	12.5%	3%	9.5%
Small Cap US Stocks	15.9%	3%	12.9%
Developed Market Foreign Stocks	12.5%	3%	9.5%
Cash	4.3%	3%	1.3%
Short Treasury Debt	4.9%	3%	1.9%
Long Treasury Debt	5.8%	3%	2.8%
High Grade US Corporate Debt	6.0%	3%	3.0%

Proprietary Assumptions

Asset Type	Expected Gross Annual Return	Base Rate of Inflation	Expected Gross Real Return
Conservative (30/60/10)	8.0%	3%	5.0%
Moderate (60/37/3)	10.3%	3%	7.3%
Aggressive (90/10/0)	12.7%	3%	9.7%

Managing Portfolio Liquidity

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

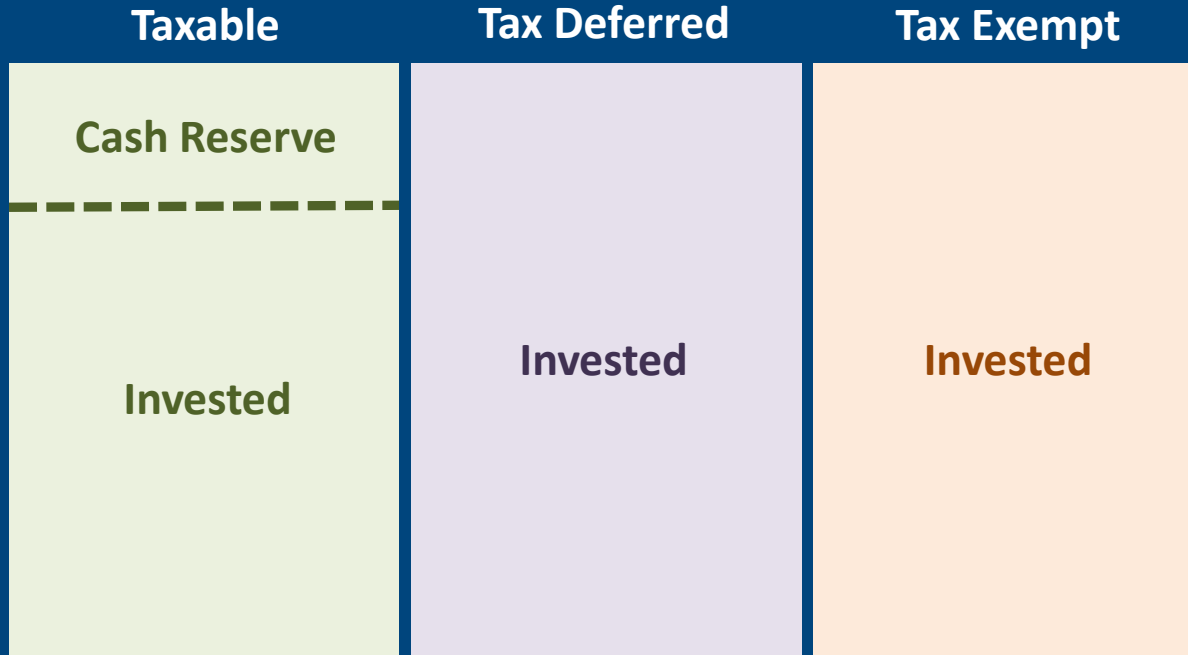
Inflation & Taxes

Can be readily and predictably
converted to spendable cash

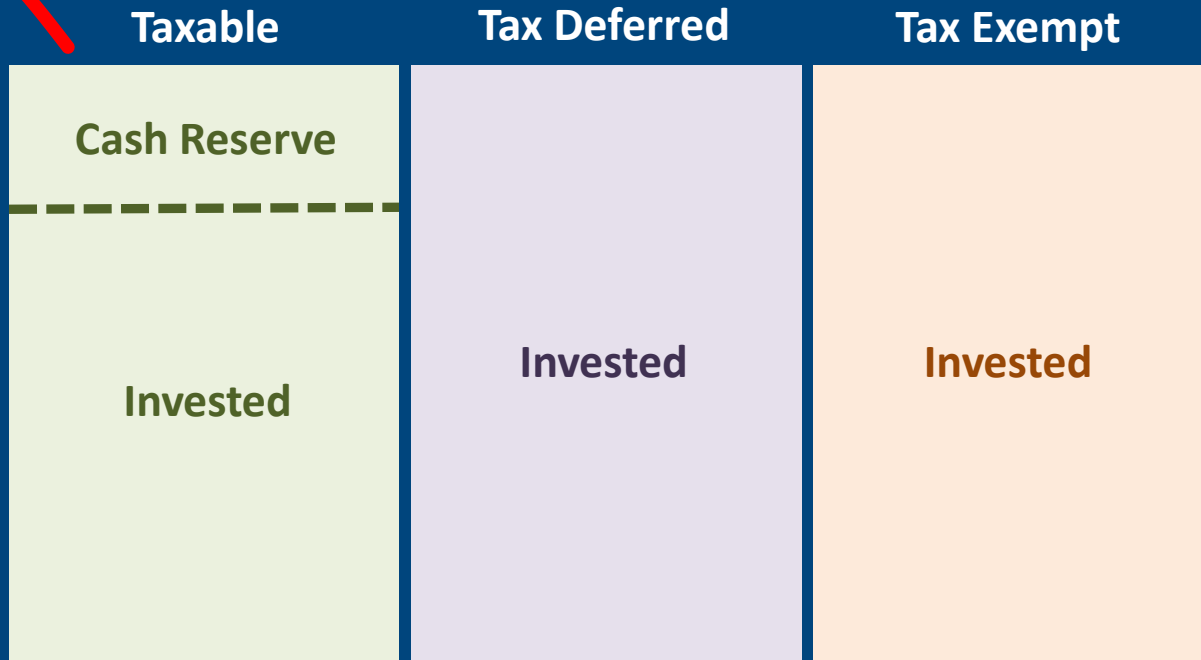
Basic Portfolio Structure

Taxable	Tax Deferred	Tax Exempt
Checking Savings Brokerage Def Annuity	TSP IRA 401k 403b	Roth TSP Roth IRA

Cash Reserves



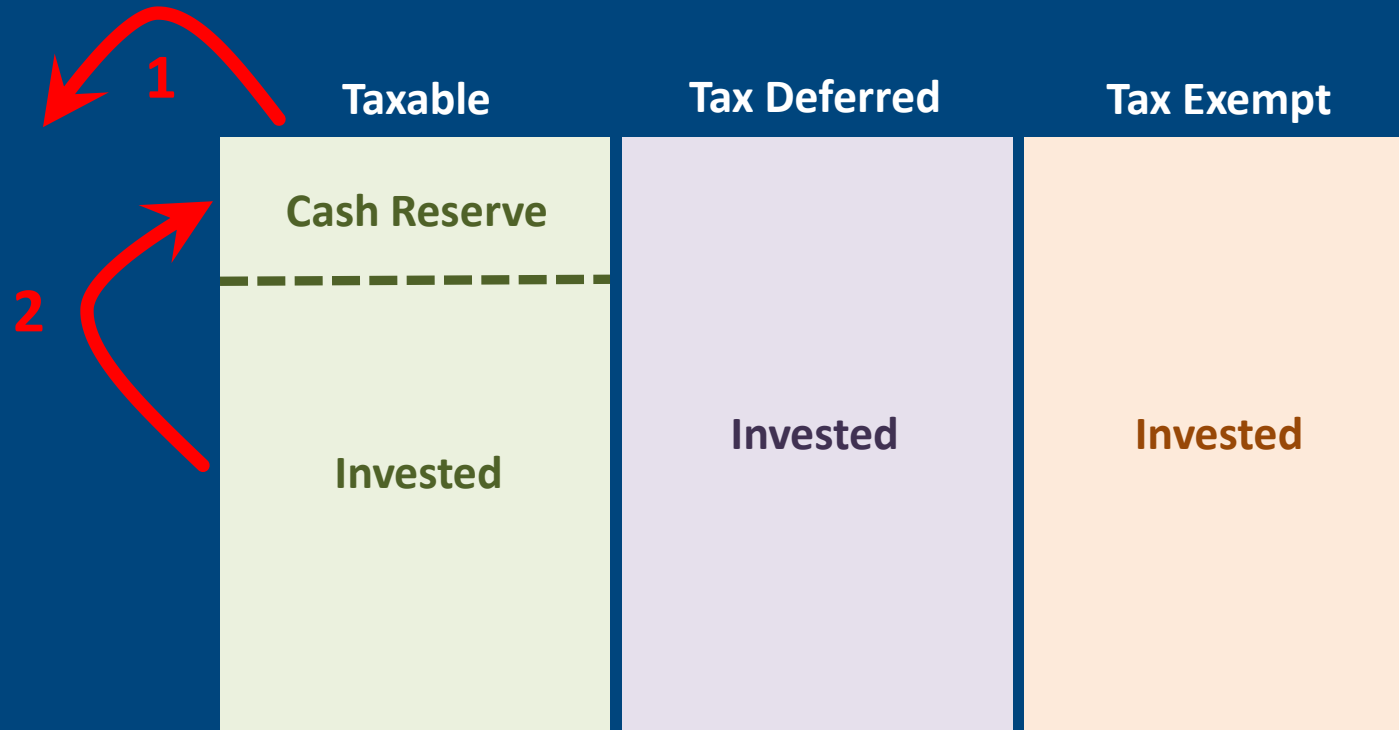
Withdrawals for Spending



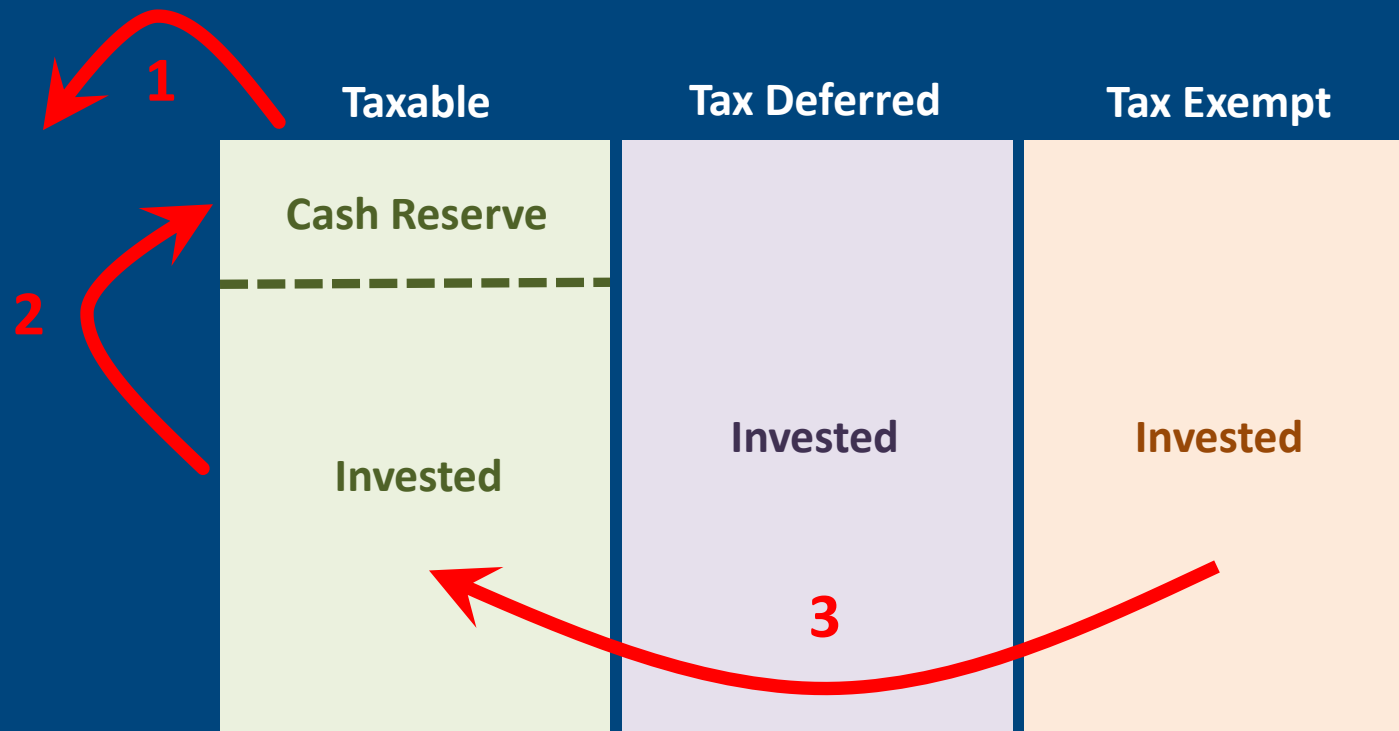
Order of Withdrawal

Withdraw from least costly sources first.

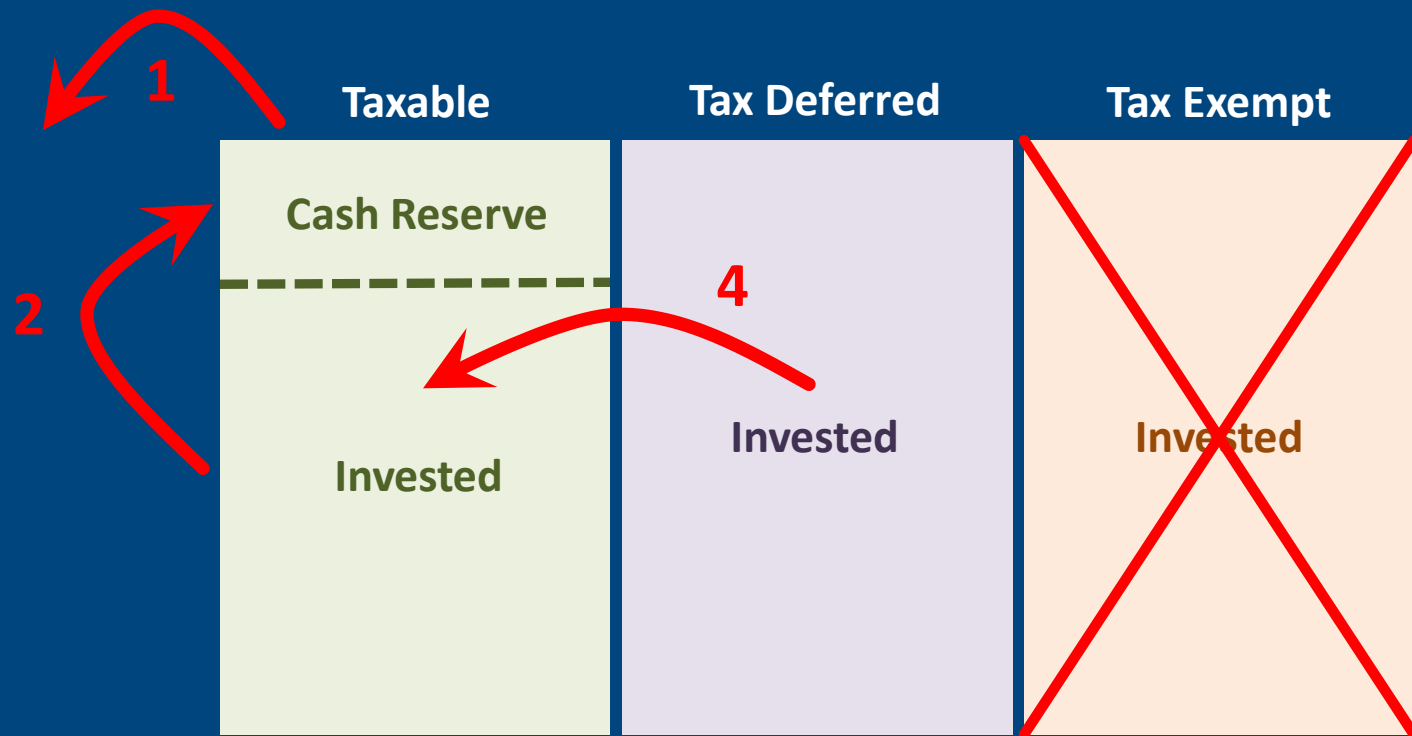
Replenishing the Cash Reserve



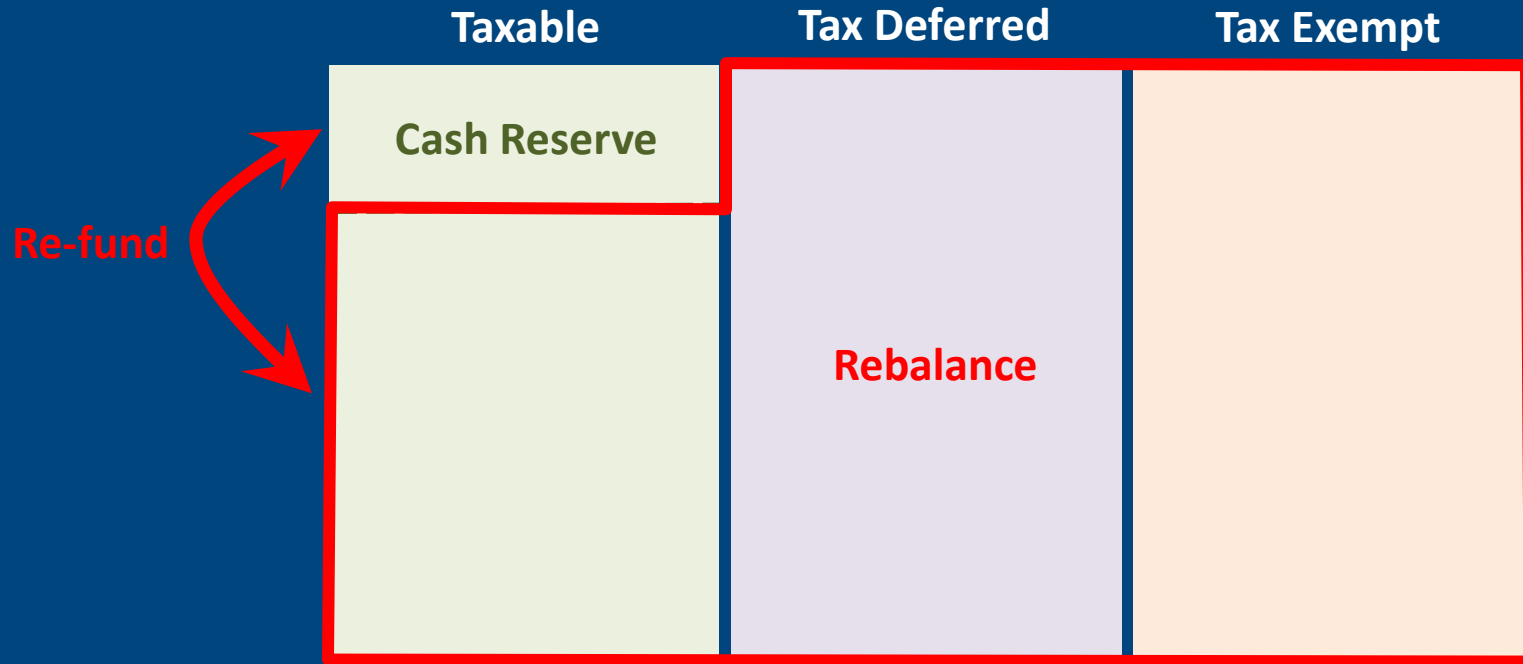
Replenishing the Cash Reserve



Replenishing the Cash Reserve



Rebalancing



Rebalancing

Cash Reserve Balance	\$30,000
Cash Reserve Target	- \$50,000
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Excess / (Need)	(\$20,000)

Rebalancing

Total Portfolio Value	\$500,000
Cash Reserve Target	- \$50,000
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Investment Portfolio	\$450,000

Rebalancing

Asset	Allocation	Target	Balance	Difference
Stocks	60%	\$270,000	\$282,000	\$12,000
Bonds	37%	\$166,500	\$174,000	\$7,500
Cash	3%	\$13,500	\$14,000	\$500
Total		\$450,000	\$470,000	\$20,000

Rebalancing

Asset	Allocation	Target	Balance	Difference
Stocks	60%	\$270,000	\$282,000	\$12,000
Bonds	37%	\$166,500	\$174,000	\$7,500
Cash	3%	\$13,500	\$14,000	\$500
Total		\$450,000	\$470,000	\$20,000

To the Cash Reserve



Next Week's Webinar

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2. Defining Retirement Resources, Goals and Constraints
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