National Bestseller

Are You Playing RETIREMENT ROULETTE?

A Survival Guide To Retiring in Today's Turbulent World

Dan Sullivan

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Introduction

You have probably read some of those financial articles that proliferate online — the ones that tell you how to figure out how much cash you need to save for a great retirement. You probably also felt worried when you read the numbers. As you read and crunch the numbers as the article guides you to do, there is one burning question giving you a throbbing headache: "How on earth am I going to be able to afford to retire?"

In my career advising people about their money, what I find is a much more neglected topic but a vastly more important one is not how much money you have saved but how much of that money you have managed to keep through the market's highs and lows of a lifetime. You definitely need more tried-and-trusted information upon which to base your strategy to know how to keep that hard-earned cash. Rest easy; I'll help you with that throughout these pages.

Not amassing but preserving your hard-earned nest egg over time is the real challenge — as anyone older than 35 knows simply from reading the news. In this millennium alone (and we are now a mere 20 years into the 21st century), we have had three notable "crashes" in our financial markets. If your money was in the market then, you felt some pain. And you started to grasp how difficult it is to hang on to that hard-won wealth of yours over time.

In the following pages, I'm going to talk about those risks that can and will derail your retirement, financial "icebergs," if you will. It is imperative that you know these risks, plan accord-

ingly to achieve your retirement goals and dreams, protect and preserve your hard-earned nest egg, and have a plan that ensures you never run out of money. Remember: Income is king in retirement.

BUT … you must have a plan that addresses these financial icebergs before you retire. If it's done properly, you'll have peace of mind knowing that you will be OK if bad things happen.

When reading this book, I want you to view your money in the same manner as a casino. So, am I telling you to take a spin with your retirement funds? No, I want you to do just the opposite. Remember, two parties are needed in any wager, the bettor and the house. Typically, the gambler risks his dollars and hopes to hit the jackpot. Most often, the result is big losses, a disaster. Does a casino make money? You bet they do! They know to manage their risk, put the odds in their favor, and play the long game to win. Please read this book carefully, plan prudently. and enjoy a prosperous retirement.

Let's start with a story about the No. 1 factor that will derail any plan: unchecked risk.

Chapter 1:

Life Lessons Learned — Wisdom Earned

Oh yes, January 1984 was a momentous month. Ma Bell was labeled a monopoly and was being broken up. On a single day, the Rose Bowl, the Sugar Bowl, the Fiesta Bowl, and the Orange Bowl were played (with all but the Rose Bowl being very close games). Later that month, the Los Angeles Raiders whomped the Washington Redskins in the Superbowl, 38-9. Arnold Palmer and Hulk Hogan were champions in two very different kinds of sports. On the second of that month, Mr. Wilson Goode was sworn in as Philadelphia's first black mayor. Apple Computers put its first personal computer on sale in the United States. The first "Where's the Beef?" commercial was broadcast on television (no cable — mainly only the national CBS, NBC, and ABC television channels were available) for Wendy's fast-food hamburger chain. Michael Jackson was the King of Pop. President Ronald Reagan announced the precursor to the International Space Station.

And, naturally, personal computers were rare, and no one had generalized internet access. There were no cell phones and no

Wi-Fi; dial phones occupied office desks in the workplace and kitchen walls in our homes.

The Dow Jones Industrial Average (the DJIA or "the Dow") defined the U.S. financial market. The DJIA was started in 1896 by Mr. Charles Dow to serve as a proxy for the U.S. market economy and remains the most widely watched benchmark index of the nation for blue-chip stocks. The 30 companies in the Dow had already by then become synonymous with the stock market. In 1983, if you talked about "the market," it was understood you were referring to those 30 companies.

In 1982, the DJIA rose 19%; at the end of 1983, it was up 23%. By January 1984, we were in the midst of a historic bull market. By 1984, investors were very excited about investing in the stock market. The upside potential seemed unlimited due to this "never-ending" bull market. In January 1984, the Dow hit a high of 1,286.64 on January 6, while its monthly low was only 1,220.58 on January 31.

January 1984 was also noteworthy for a 23-year-old freshly minted stockbroker. He'd studied economics as his college major for four years and then passed a Series 7 exam to get a stockbroker position at his investment firm. Back then, his job was clear cut: buy and sell individual stocks for the people who became his clients. He worked on a per-trade commission basis, recommending stocks to each of his clients, and was successful right out of the gate. Buy 100 shares of ATT and cha-ching! Sell 100 shares of IBM and cha-ching! Our young man just made over $400, and life was beautiful!

A Time Machine

People take for granted the vast resources that are available to the average investor. Today, all you need to do is turn on your internet-connected PC or smartphone for all the stock and mar-

ket information you like — right at your fingertips. It's free to get multiple full company reports on virtually any company you are interested in (all types of market information). The ability to perform your own analytical research using sophisticated techniques, such as technical analysis, chart software, and standard deviation comparisons for companies are just a few of the tools now available to today's investors. The financial universe of stocks, bonds, exchange-traded funds (ETF), options, and futures are just a click away. To buy or sell a stock today, you just log in to your E*TRADE or other online brokerage account and complete the buy or sell transaction yourself for a minimal fee (done in seconds, all on your own). In fact, many companies will execute your transaction for free.

Going back in a time machine, though, you easily see that the world of investing was quite different from what it is today. In the 1980s, Wall Street worked in a completely different fashion. Back in the day, if you were interested in a particular company, you would have to approach a brokerage firm that followed it from a research standpoint. If you wanted to buy or sell that security, you would need to call a broker who would write your order. The broker would then contact the trading desk to execute the buy or sell order. After the broker got the confirmation call back from the trading desk, they would notify you, the client, that the transaction was complete. The cost of the single transaction could be as high as 3% of the share price, paid to the brokerage firm for the privilege of having the broker execute your trade. The stockbroker and his brokerage firm then split the commission you paid.

Information was hard to get back then without the broker (and just plain impossible for the "retail" investors who were our young broker's clients). In the 1980s, Wall Street brokerages had a monopoly on publicly traded company information. The broker was the gatekeeper to his firm's internal research department.

That cocky kid felt like the font of all investment wisdom whenever he would begin a sentence with, "According to my firm's research, …"

In fact, Wall Street operated as a closed shop throughout the 1980s. Proprietary research locked out anyone who wasn't a client, and the brokers' own products flew off the shelves no matter what their investment quality or real value might be. The brokers were kings; hefty commissions every month were the rule rather than the exception. Being a stockbroker was a great career because in the '80s, everyone — clients and brokers alike — was profiting. Everyone was making lots of money, so no one complained about high commissions or the type of trades the broker might suggest.

Our young guy felt as if he were bulletproof. The rising tide of the equities market more than compensated for his inexperience. Clients had been trading like crazy for his "whole" career, and with every trade, he earned a generous commission. Individual equities had risen roughly 60%; clients and brokers were happily making money hand over fist.

By 1987, the DJIA sat at about 1,927 points in January (nothing but one spectacular rise after another). At the inception of that year, our guy's track record was such that he was promoted. He was the youngest-ever branch manager for his firm, supervising three other brokers.

Still in his 20s, he was making well over $100,000 annually. The kid had no fixed or base pay — just commissions. To put that compensation in perspective, his MBA buddies from college were earning in the $30,000 per year range (and thrilled to be making such "big" money in salaried positions straight out of college).

Nothing could stop his personal wealth building. He bought expensive waterfront property on the south shore of Boston and

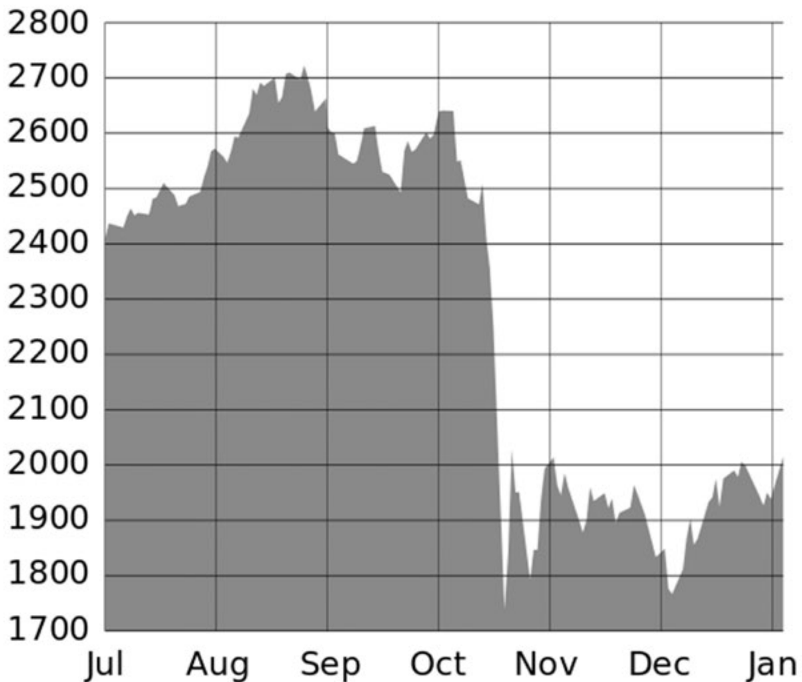
acquired additional investment properties. His bank was so happy to have his business that they extended a credit line to him. He took advantage of hot stock ideas and traded his personal account to well over six figures. He purchased a custom-ordered Buick Grand National Special Edition sports car with a 1987 sticker price of over $15,000. (It was the fastest production car made at that time.)

On weekends, he lived large, eating at the best restaurants and attending sporting events throughout the country. He didn't hesitate to fly to New York City or Florida on a weekend jaunt. There seemed to be no end in sight to the bounty that this amazing career choice offered him. His job was fun, and what was more, it was relatively easy for him to make money.

Inexplicable Crash

On August 10, 1987, the DJIA closed at 2,658. Those August highs were intoxicating as the market rose, rose some more, and continued going up. October 19, 1987 — which came to be known as Black Monday — was a different kind of day entirely on Wall Street. A record 595 million shares traded hands that day. The prior record was 302 million shares. The DJIA plunged that day by a then-record 508 points, a 22% decline in the index. To put that into perspective, the Great Depression started on October 24, 1929, with a dive of "only" 13%. Sellers were rushing for the exits. In many instances, investors who sold shares that afternoon did not even know the price their shares sold for that fateful day until the next morning.

The following 1987 DJIA chart shows October's dramatic crash in market prices.



Source: https://en.wikipedia.org/wiki/File:DJIA_Black_Monday_1987.svg

Our young broker, most investors, and the media-reading public had been lulled into thinking the rise would continue indefinitely. "Irrational exuberance" on the upside was the mood. The shared wisdom on the street was that up was the only way the markets would ever go.

A herd mentality had developed throughout the country, with no one even entertaining the possibility of a drop of such magnitude; the potential of such a drop occurring was not a consideration even in most professional analysts' minds. The markets had been bullish (rising) for so very long. How could that not just be the endless trend?

Scholars and historians still do not agree on what caused this historic stock market crash of 1987. Reasons repeatedly cited for the crash include 1) interest rates, 2) liquidity, 3) the value of the U.S. dollar, 4) programmed trading, and 5) international deals from 1985, in which the U.S. Federal Reserve made an agreement with the central banks of the G-5 nations to depreciate the U.S. dollar in international currency markets in order to control mounting U.S. trade deficits.[1]

Despite the reality of clues that a dramatic drop was in the making, no one took notice throughout the prior ups and downs. Research department indicators weren't pointing in that direction. Few, if any, Wall Street gurus saw it coming. Regardless of the actual cause, the average U.S. retail investor was caught in a wave of selling — a massive, horrendously vertical nosedive of the charts.

Repercussions

The young broker's life changed dramatically from October 20, 1987, onward. Retail investors' behavior changed after Black Monday 1987. No one picturing this scenario today would doubt that it shook people up (just imagine that you had all your money in the market that day!). People who held their stock positions were no longer buying and selling. The unfortunate few who panicked and sold at the lows got out of the market entirely and did not come back.

Firstly, we have to say that our young man did the right thing by his clients. His emphatic advice to them was to hold on to their positions and wait for a market rebound. This recommendation was effective for his patient clients. Fortunately, most of his clients were older and chose to wait for prices to recover;

1 https://www.investopedia.com/terms/s/stock-market-crash-1987.asp

they were OK. Unfortunately, a small percentage of his clients panicked and insisted on selling into the frenzy. The moral of this story? The people who held on to all their stocks recouped their losses, with new highs reached in 1990. It was a 2 1/2-year waiting game!

Aftermath and Epiphany

Secondly, how did this market event affect our stockbroker? The net result for our young broker (in fact, for all brokers) was that the “go-go” days of the 1980s were over!

As you recall, our friend earned his living by buying and selling stocks for individual investors. The more trades he made, the more commission money he banked. In the aftermath of Black Monday (and for the following two years), his business was down 70%, and, thus, his income was also reduced by over 70% — and with it went his ability to support his high-flying lifestyle.

But he had a backup plan: He owned real estate. Real estate doesn’t go down in value, does it? Interest rates began to rise dramatically again in the late ’80s, and the savings and loan crisis rocked the financial markets. Massachusetts real estate (where he held his properties) took a nosedive. Even his Plan B was now underwater.

But he stayed in the business. His clients who held firm were fine in the long run (those were the ones with an “I’m-in-it-for-the-long-term” mentality). However, they brought little new money to trade, so their activity was down as they sat on their hands. New clients were difficult to obtain.

His waterfront property? Gone. Investment properties? All gone. Custom Buick? Sold off for a loss. Line of credit? Withdrawn by the bank. Individual retirement accounts and investment portfolio? Liquidated. Savings? Gone. He couldn’t afford to wait it out; he needed to use his savings and stock portfolio to

support a reduced lifestyle. He filed and was approved for bankruptcy. Obviously, it did not end well. Our bulletproof broker went bust. Broke. Bankrupt.

He came out of it, though, and was determined to stay in the investment business. The president of his previous firm was a friend, and he called him about an opportunity in Vermont, which led him to a Burlington, Vermont, bank. There he was given the opportunity to start the bank's northern investment/financial planning division.

Thirdly, our former hotshot had an epiphany: He realized that his old business model would not survive. He now knew that his job was to help people plan for the long run and not chase the short buck. His epiphany was that "managing risk is the most important contribution he was ever going to be able to make" to future clients in helping them achieve their goals. He learned the hard way that risk management, proper money allocation, and solid long-term strategies are the real keys to financial success.

He wiped the slate clean and studied financial planning processes from the ground up. He enrolled in the College for Financial Planning to immerse himself in the process and, after many years of study, earned the Certified Financial Planner (CFP®) designation. He also enrolled at the American College of Financial Services and earned the life insurance-focused Chartered Life Underwriter CLU® designation, a professional specialization in life insurance and estate planning.

He packed his car and drove 3 1/2 hours north. He moved from a waterfront south shore contemporary home overlooking the ocean to a cheap studio apartment in a lousy neighborhood of Burlington, Vermont. Armed with the new knowledge that managing risk is the most important aspect of helping his clients achieve their retirement goals, he set out in this phase of his career with a new business model. He replaced those go-go 1980s

with a new philosophy utilizing diversified mutual fund investments, guaranteed income strategies, and tax-deferred annuities.

From then on, he understood his clients' needs had changed and that his business model needed to change form as well. He moved from a speculation mindset to a wealth-creation and wealth-preservation philosophy.

Now he thought long term for his clients, rather than in terms of short-term speculative trading. He could do the risk assessments (not just short term) and longer strategic planning with clients. Until the crash woke him up, he thought there was no need to plan long term because people were making money hand over fist in the short term.

Looking back, he realized that life had been good from 1984 to 1987. He had been cocky, self-assured — and then some! This 8-feet-tall, do-no-wrong stockbroker making easy money felt bulletproof. Every day, he had awakened believing he could pick the winning stocks with his eyes closed and both hands tied behind his back (and the golden touch he had would last forever).

At the close of 1987, he was, indeed, a thoroughly humbled young man. Humbled by the world and its surprises and now armed with the realization that things had drastically changed. He was smart enough to know he needed to change, so he sought a new path and implemented a new vision. He became a super planner rather than a super broker who was only a transactional guy.

From then on, he knew that diversified long-term planning and risk assessment was necessary for his clients to achieve their retirement goals. In looking at clients who held on to their portfolios versus those who did not, he realized that a range of clues revealed themselves. There was no one-size-fits-all money protection for all clients. Instead, he had to teach clients how to protect their principal. Before he could do that, however, he had

to assess his own goals and finances and never put himself in such a vulnerable position. So he applied his planning knowledge to himself from then on out.

His big lesson from 1987? Risk is lurking even when it is not apparent; failure to understand that and plan accordingly is dangerous. The realization of risk management had hit him like a ton of concrete fallen off the crane, and it was a lesson he learned well. Sometimes a guy just has to learn the hardest lessons first-hand!

He worked his way back up from broke, never washing out of the business. And no one ever challenged his integrity.

Fast-Forward to Today

That cocky kid was me, Dan Sullivan. Yes, indeed, here I am, still standing and thriving in the financial planning business for over 30 years. No longer cocky (at least in my opinion), I have retired my magic wand (Harry Potter notwithstanding). I've shrunk back down from 8 feet to my humble 5 feet, 11 inches — my wife, Cathy, thinks I'm shrinking — and I'm infinitely wiser now than I was then. The bad news is that I learned money lessons the hard way in my life. The good news? I have used those hard lessons to dedicate my life to protecting the nest eggs and future income of ALL my clients. However, when you are near retirement, you won't have the luxury of time that I had to set things right.

It All Comes Down to Risk

It's all about risk — eliminating unnecessary ones and mitigating the remaining ones. My experience has molded every bit of analysis I've done ever since for every one of my present clients and will continue to do for future clients. It has guided me to think about my clients' money as if it were my own (and I learned how bad it hurts to lose it all). My knowledge has guided the advice I

give, particularly to individuals within 10 years of retirement or current retirees.

I promised you a book about managing risk as you approach retirement, and this one is for you:

You must realize that protecting your nest egg is the most important thing you can ever do.

I'm here to share my experiences with risk and money with you. This book is a culmination of my 35 years of experience in the trenches of markets, investments, and life experience.

Closing Lessons Learned

- EXPECT THE UNEXPECTED!
- Risk is lurking even when it is not apparent to you.
- Market trends are not forever. Bull markets do not last forever. Stock prices do not go up forever.
- Strategies that have worked in the past won't necessarily work today or in the future.
- Stuff happens, life happens, and circumstances change.
- Always be prepared because change is inevitable.

Chapter 2:

Boring but Essential Concepts To Know Before Retiring

We all know the risks of a serious car crash, whether we ever learn to drive. At worst, it could be fatal. In all cases, I believe that severe automobile crashes are life changing for anyone involved. They make us think differently about being behind the wheel or on the road as a passenger. After a crash, we tend to plan our car outings a little better, allowing extra time to get to our destination and considering road conditions. In most cases, surviving a crash turns us into a different kind of driver.

The stock market crash of 1987 turned me into someone who planned his "road trips" much differently, too. I woke up to the fact of risk. Like a car crash, risk can prove to be fatal if not managed for retirees and preretirees.

Bull and Bear Markets

As you can see in the following DJIA chart (starting in 1915 and continuing through 2020), the stock market has gone through long and short periods of market cycles. A cycle is just the markets' movement up, then down, then up again, and so on.

Friend or Foe?

Source: https://www.macrotrends.net/1319/dow-jones-100-year-historical-chart

A bull cycle or bull market is a prolonged period in which stock prices increase. A bear cycle or bear market is a prolonged period in which stock prices either stagnate or lose value (prices go down). It is necessary to fully comprehend that markets go in cycles, and you MUST NOT assume that markets go up forever!

Three Behaviors of Money

You could call them phases of money or ways of managing your money. I like to call them the three "behaviors" of money, which means that money can "act" differently according to whether you are in your early years of saving, approaching retirement, or fully in retirement. People who don't understand the difference often end up disastrously short of their retirement goals.

Accumulation Phase

In your early years, you are doing what we in the industry call "accumulating." You are younger, having perhaps 20 or 30 years before retirement, and you invest new money every month or year into your portfolio. This period is the money-accumulation phase of building wealth.

During this phase, you build or accumulate your wealth as you work and earn money — wealth that you will dip into during your retirement from the world of work. It is during this phase that you should invest more aggressively to grow your nest egg.

Dollar-Cost Averaging in the Accumulation Phase

Let's just look at the 21st century, at the past 20 years of market fluctuations to the downside. As you refresh your memory, recall the market events that have occurred this century:

- Winter 2000: The stock market dropped 49% in the dot.com crash, getting back to breakeven (the March 2000 level) after four years.
- In 2007: The market again dropped, this time down over 58%. By early 2009, experts estimated we had recovered from this Great Recession and that the market had bounced back.
- The 2011 drop: This drop in the markets of nearly 20% was so close on its heels that many believe they had not fully recovered from the Great Recession when it hit. It was no comfort that it lasted "only" five months.
- Fall of 2018: We saw another three-month dip of around 20%.

Source: https://awealthofcommonsense.com/2020/03/how-long-does-it-take-to-make-your-money-back-after-a-bear-market/

Those large fluctuations (also known as volatility or market volatility) can, believe it or not, be a huge blessing for investors when accumulating. The best rule that we all hear and should follow is "buy low." When the market is bearish/downward, you can buy attractive stocks at lower share prices. In your case, you probably are buying units of a mutual fund in your 401(k). As the markets sell off, you buy more units; as the markets rise, you buy less of the more expensive units. The net result being, after decades of contributing and receiving company matches in your 401(k), your nest egg will grow exponentially. Thus, during the accumulation phase, the manic up-and-down trends of the market can actually be your friend.

Two key takeaways for investing in the accumulation phase:

1. Buy growth assets through good times and bad.
2. Have the peace of mind to know that markets go in cycles, and this is your opportunity to accumulate a larger nest egg.

Everything I've just stated about money's behavior is true, and you can take it to the bank. But it's true only in your younger working years of the money-accumulation phase. That is when you have a long runway of sorts — lots of years to earn and ride out the volatility.

Preservation Phase

Your money-accumulation phase doesn't continue indefinitely. Here is where you need to pay attention: Money behaves in a certain way when you are in the accumulation phase but acts differently as you get closer to retirement.

When you're within five to 10 years of retirement, you no longer have time to ride out the market's downward fluctuations. Certainly, you will still benefit from any bullish rise in the market

prices of your holdings. But in the case of a severe or badly timed crash, can you wait it out? Do you have enough months and years ahead of you to do so?

Look again at my list of the four major crashes of the past 20 years. If your retirement had been scheduled for, say, 2009, ask if yourself if you would have been able to wait years for the market to rise again starting in 2008 and still have a retirement nest egg of any consequence? Probably not. These big downturns are fatal to your retirement income and goals if they happen near your retirement time. They will kill your nest egg.

Even if you don't yet have a set date for your retirement and you are in your 50s, you must start to adjust your thinking about investing. I encourage you to continue to put more cash into your retirement funds, and there is no doubt you should do so while you are working and earning. In the preservation phase, you need to go from "grow, grow, grow" to taking steps to protect your nest egg.

Because money behaves differently in your retirement's distribution phase, I suggest you start to move out of the accumulation phase around 10 years prior to retirement as you enter the preservation phase. The name says it all: You need to preserve or keep what you have, and prudently and gradually add to it. Because your money will behave differently in this phase, you must too. For the five to 10 years before retirement, you remain firmly in this preservation phase of money management — which means you will enter into more conservative portfolio holdings and take other wealth-protective steps to secure that hard-won, long-nurtured wealth.

Distribution Phase

As you enter this next phase (the distribution phase), remember this is the culmination of your life's work, and the rules are once again different.

In this phase, you'll start taking income out of your accumulated wealth every month or every quarter to pay for your retirement needs and wants. The distribution phase occurs when you have fully entered retirement and are withdrawing a predetermined amount from your portfolio on an annual basis to supplement your retirement income.

You'll want to plan wisely to ensure you have all the necessary guaranteed income to achieve your retirement goals. It is necessary to arrange your assets accordingly so that you and your spouse never outlive your income.

For review, the three behaviors or phases of your money are as follows:

1. **Accumulation** — The period from your first job until 10 years before retirement
2. **Preservation** — 10 years before retirement until retirement and beyond
3. **Distribution** — During retirement

Next, there are three concepts that you must understand to plan for retirement effectively:

1. Sequence of returns
2. Losses hurt you more than gains help you in retirement
3. Fatal fluctuations

Sequence of Returns

Anyone who retired in 1983 had enjoyed 17 years of above-average stock market returns and was sitting pretty in retirement. However, anyone who retired in 2000 would have endured two 50% drops in the stock market and may have gone broke if they had counted only on the stock market for their retirement income.

Timing is crucial in relation to risk management. But the question is: Who can time the market? (Hint: no one.)

Let me explain a concept called "sequence of returns." We know that "returns" refers to the annual percentage or dollar amount of profit or loss in your portfolio. You might profit +22% one year on your entire portfolio and lose -13% the following year (or vice versa). Thus, it is possible to make a negative return or a positive one.

Remember, there are bear and bull markets. Your "returns" will be positive some years and negative other years. When in the accumulation phase, your money will grow to the exact dollar amount regardless of the market cycle. For instance, if you invest a dollar at the beginning of a bull market or start of a bear market, you will end up with the same total amount over an extended period of time. I know it sounds confusing, but think of it this way. Let's say you invested $100,000 and received the following returns over the first five years:

Scenario One

Year 1	13%
Year 2	2%
Year 3	15%
Year 4	-11%
Year 5	-6%

Your $100,000 would grow to just under $111,000 during that five-year period. Now, let's say you invest the same $100,000 but have the reverse returns over the next five years:

Scenario Two

Year 1	-6%
Year 2	-11%
Year 3	15%
Year 4	2%
Year 5	13%

In the first scenario, the bull market came first, and in the second scenario, the bear market came first. Under the second scenario, what would your $100,000 be worth? Exactly the same $111,000! Don't believe me? Go ahead and do the math right now. It's important to understand that when you are accumulating assets, the market phase is irrelevant. Buy and hold does and will work.

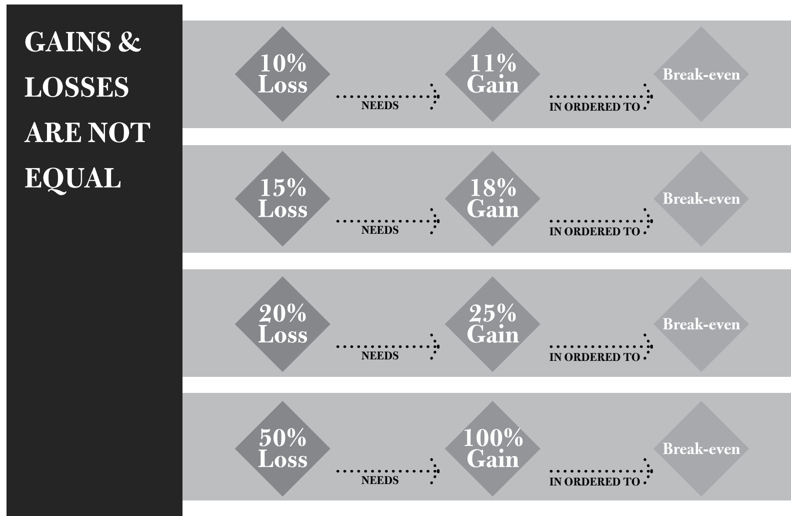
If the sequence of returns doesn't matter in the accumulation phase, does it matter in the distribution phase? You bet your life it does — literally! It matters big time. Remember, you have an additional variable in the distribution phase — you are pulling cash from your investments. If you depend on the stock market for your income and we have a prolonged downturn (bear market), the chance that you run out of money increases dramatically. I will address this later in the chapter when I speak about how big losses affect your retirement.

About Losses and Gains

Something to always remember in the preservation and distribution phases is "*losses hurt you more than gains help you*™." (And

many thanks to my friend and trademark owner Scott Brooks of St. Louis, Missouri, for permission to quote this helpful alert.)

The following graphic demonstrates this concept:



Let's walk through it so that you understand the consequences of not moving from the accumulation phase to the preservation phase in a timely manner.

Look at the $100,000 portfolio you have upon beginning retirement. You believe you can handle a small change in the market, but maybe you can't. If the market were to drop 10% for a full year or more (and we've historically seen much more prolonged and deeper bear markets), what happens to your $100,000 portfolio? You lose $10,000 of its value. Some time passes, and the market starts to rise again. How much does it need to grow for your portfolio to come back to $100,000? Ten percent? No, not 10%. The market will have to climb a little over 11% to make up your lost value.

Take a look at the math:

$100,000 — 10% ($10,000) = $90,000

Now you only have $90,000, so let's see what happens with a 10% rise in the market:

$90,000 + 10% (calculated on your current $90,000 and thus equal to $9,000) = $99,000

You see that 10% doesn't recoup your whole $100,000. How does 11% look?

$90,000 + 11% (or $9,900) = $99,900

That 11% gives you a bare, "break-even" increase. Until you reach an 11% gain, you are sitting at a loss and cannot expect to grow your portfolio until you (at least) reach the break-even point.

Go through the graphic for each percentage drop, remembering that the 50% drop on the last line is not imaginary. In 2007, our markets dropped 58%, so we know it is possible (and it can occur again). Remember that historically there has been a drop, a bear market, every three to four years.

With that 50% drop, your $100,000 portfolio is suddenly at $50,000. You don't need just a 50% rise in the markets but a 100% gain to regain your full portfolio value back. How long will that take?

$100,000 — 50% ($50,000) = $50,000 left

$50,000 + 50% (half of only $50,000, thus $25,000) = $75,000

$50,000 + 100% (another $50,000) = $100,000

Consider how long it took you to double that initial $50,000 years ago to reach a $100,000 portfolio. Can you wait that long now for it to come back?

These downturns definitely qualify as a fatal fluctuation if you are in retirement at the time. Suddenly, the sequence of returns

becomes very important to the portfolio — and you do not control that sequence.

As I saw in 1987 with its 30% drop, a fatal fluctuation in the markets will destroy, not protect, a nest egg. If it is the nest egg of a lifetime, it could be fatal to your retirement security.

The math in the previous graphic makes it quite clear that losses and gains are not equal. In retirement, this can be devastating.

Losses Hurt You More Than Gains Help You™ [2]

I can show you how losses can continue to hurt you in retirement. Most people do not consider this fallout when they forego the preservation phase of money management. You must, and here it is:

Let's say that during retirement, you follow the rule of taking a yearly 5% out of your nest egg (a common recommendation of many financial planning practitioners that we will discuss in one of the following chapters). Let's assume you have a $100,000 portfolio upon retirement and are counting on distributing or withdrawing 5% or $5,000 per year from it to supplement your retirement.

What will become of that strategy when the market drops 50% in any given retirement year? You have a couple of options:

1. Withdraw only $2,500/year for the years that the market is at that new 50% lower level (and tighten your belt).

2 Scott Brooks, used with permission

2. Continue to take $5,000, understanding that the amount represents not 5% of your wealth but 10% now.
3. Take no money out and exist on the remaining income you have secured for yourself (and not just tighten your belt, but see your lifestyle deteriorate accordingly).

In the second option, you run a real risk of running out of money during retirement. We never know how long a bear market will last. Which will last longer — the bear market or your money?

Pulling It Together

Let's go back to the sequence of returns example and the risk exposure we identified. During accumulation (your early years of investing and taking advantage of large fluctuations to buy low and wait for the rise in the price of those purchases), the sequence of returns does not matter. Whether it's profits one year, losses two years in a row, or profits for the next three years, the order in which those events occur doesn't matter. Over two decades, you can have alternating years of gains/losses, and it does not change the overall total outcome in your portfolio.

If the fluctuations happen early in your accumulation years, you can still achieve your goals because you have time. You are still working and earning, not yet dependent on the income of your portfolio holdings. The key in the accumulation phase is the time ahead of you to build your portfolio. Time is on your side. Though there will be fluctuations, they will not be fatal to your wealth.

Fast-forward to the distribution phase. You have bypassed the preservation phase, and here you are, retired. The early years of your retirement tend to define the later years. If you suffer investment losses due to a 50% crash in the market in the early years of

retirement (which is a matter of luck, granted), the odds of your holdings lasting your lifetime have fallen off the deep end. If you experience wealth gains (again, luck), the odds are in your favor that your money will last as long as you do.

Fatal Fluctuations

Fatal fluctuations can be stressful to any retirement portfolio in the years before retirement but are fatal when you are actually retired. Volatility in the markets is your friend — but only in the accumulation phase. If you are within five years of retirement and experience a large downward market trend, that could be devastating to your financial health. Even worse, if you were dependent on the market for your income during retirement and were to experience a bear market, you will NOT be able to achieve your retirement goals. You simply will not have enough capital to produce your desired income: This is what is called a fatal fluctuation.

A review of the chart earlier in this chapter proves it: There has historically been a bear market (a noticeable drop in the market overall) every three to four years. Go back up to the 100-year Dow chart and see if you can spot them all. Don't think a devastating bear market cannot possibly happen as you approach or live out your retirement years. They will happen!

Note also that if the market drops 20%, and some of your individual stock holdings are more vulnerable than the market as a whole, those stocks could drop significantly more than just the average 20% and take longer to rise again.

In 2020, we witnessed an example of this vulnerability. The effect of COVID-19 on real estate investment trusts (REITs) resulted in a shutdown and the aftermath of the shutdown in commercial real estate. Since so many companies can/could not open

normally, many commercial tenants have defaulted on their leases, causing the REITs to suffer a significant reduction in revenue.

On the other hand, COVID-19 was extraordinarily helpful to companies like Zoom.com, a web-based audio/video conference tool. Its stock rose 611% this year due to the increased demand by those working remotely during the COVID-19 quarantining. Online, remote video/audio conferencing boomed, and Zoom went from $71/share in January 2020 to over $500/share by this writing in September 2020. (How many benefited from Zoom this year? Not that many.)

As I've said, the sequence of returns becomes critical now in your distribution phase. However, you can no more control it during this phase than in the accumulation phase. In the distribution phase, you are no longer earning new money and are in retirement. You are taking money out of your portfolio for your expenses (taking a distribution). If your timing is wrong, you risk running out of money in retirement and cannot remedy it at all.

Losses or gains to your portfolio are a matter of luck in retirement, just as in other times of your life. Wealth stability is another matter, though.

Wealth Stability Is Decidedly Not a Matter of Luck but Planning

If you skip the preservation phase of wealth building, you could be in big trouble. If you are not careful in retirement and knowledgeable about money's behavior and how to protect it, there is a good chance you'll run out of money. There is nothing worse than money problems in retirement because there is often nothing you can do about it.

That is why you must start your preservation phase with plenty of time before you retire. As you near retirement, your money starts to behave differently. If you have $1 million saved, you

need to act now to preserve that "big amount" as your No. 1 priority.

You can no longer afford a bear market because you won't/don't have time to wait for a multiyear bounce back that would (presumably) bring your portfolio back to its precrash level. To reiterate: Losses hurt you more than gains help you in retirement.

People say to me, "Dan, we are planning on retiring 'in five years' or 'at age 70'" or some other future date or year. They have in mind that retirement (even five years down the road) is "way out there" in the future and that they have plenty of time to prepare.

But they usually fail to change their behavior and leapfrog over the preservation phase of money management. People do not typically have "the plan for retirement" that allows them financial security during those years after active work. They do not attempt to understand (as you now do) the sequence of returns risk.

For your money to outlive you, rather than the opposite, you need to understand the risks and how money's behavior is different in retirement. In the next chapter, we'll examine the essential concepts to incorporate into your financial retirement plan. In subsequent chapters, we will study more risks to avoid.

You need a plan to survive fatal fluctuations in your retirement nest egg. Always expect the unexpected. Because of the way money behaves in retirement, you need a plan — now.

Closing Lessons Learned

- The sequence of returns is not an issue in the accumulation phase but can be a huge problem in the preservation and, especially, the distribution phase. Time is no longer on your side as retirement approaches.
- Money behaves differently (or you should) depending on whether you are in the accumulation phase, the preservation phase, or the distribution phase.
- Different money-management tactics are required to preserve your wealth.

Chapter 3:

You've Got To Have a Plan

Ben Franklin said it all when he stated, "By failing to prepare, you are preparing to fail." Or, in the case of retirement funding, you are preparing to run out of money if you fail to understand the behavior of money and plan wisely for your financial retirement.

The truth is stark: If you do not understand money and risks and take measures to reduce or eliminate them (if you do not plan early), there is a good chance you'll run out of money in retirement.

This chapter is about following Ben Franklin's advice. It is about financial planning specifically for retirement, not about guesswork. Given the behavior of money in preretirement and retirement, you need to have a completed, written financial retirement plan — BEFORE YOU RETIRE! Don't believe me? Go ahead and interview people who didn't plan for their retirement. They are easy to find. They are working at big-box retailers or local convenience stores.

There are only a few steps to your planning, and I'll reveal them in detail here so that you can get started on your own. Generally, I see two groups of people when it comes to planning:

1. The do-it-yourself individuals (I give the DIYers step-by-step instructions below.)
2. Those who go straight to a professional for guidance

Let's get you started right now with how to put together a written financial retirement plan!

Step 1 — Taking Financial Inventory

In a world where it is so easy to invest, earn, and bank money, both overseas and in different states, it might take a bit of organization on your part to reunite all the pieces of your wealth. You must locate all the accounts you hold now so that you have an accurate accounting of your financial assets.

Part #1a: Where Is Your Money Now?

This first step is critical. Take a careful, honest inventory of all your financial assets earmarked for retirement. Almost no one has all their money in one account. Thus, this first step identifies all the places you have parked money (and how much is in each location).

I have had clients who have money here at home and overseas. It is time to pull out that information and locate it all. I have had clients with accounts that their longtime spouse never knew about for one reason or another; likewise, it is time to bring that money into the daylight. I have had scatterbrained clients (sorry to say, but it is true) who are simply disorganized by nature and who have needed the guidance of a trusted family member (or professional fiduciary) to dig up all the paperwork and history on their own money.

If you are single, you should know what and where to look. If you are married, do this inventory for your separate assets

(whether married or in a common-law marriage) and for your joint assets. If you have divorced recently, pull together everything that counts as your personal assets.

That said, it is essential to gather together statements that include assets located in the following:

- Tax-deferred retirement accounts — such as 401(k), 403(b), and 457 accounts (and any other tax-deferred retirement account)
- Individual retirement accounts (IRA) of the seven various types: traditional IRA, Roth IRA, SEP IRA, nondeductible IRA, spousal IRA, SIMPLE IRA, and self-directed IRA
- Retirement plan(s)
- Pension retirement plan(s)
- Brokerage account(s) — whether self-directed or managed (note that this will include an accounting of dividend income)
- Certificates of Deposit (CDs) held at your bank or financial institution
- Checking account(s)
- Savings account(s)
- Other money market account(s)
- Cash-value life insurance
- Any other financial instruments
- Any other investment income sources (such as private equity)
- Real estate (not your home) or business interest income

- Equity in your home (even if you do not plan on downsizing or monetizing the equity)

Part #1b: Guaranteed Streams of Income

Now, examine what your guaranteed streams of income are during your retirement years. By "guaranteed," *and this is important*, I mean an unvarying amount of *money you receive on a predictable, recurring basis for life*. For all Americans who have worked and paid into the system, Social Security retirement income is part of this guaranteed stream.

Go to the Social Security website (www.ssa.gov) and get a Social Security report for yourself (and your spouse if you are married). There, you'll get the clearest and most accurate estimate of your Social Security income at the ages of 62, 66/67, and 70.

Age 62 is the earliest at which you can start receiving Social Security retirement income, and it will be around 75% of your full earned amount. Depending on your birthdate, age 66 or 67 is the full retirement age (the earliest age you can begin receiving 100% of your monthly Social Security amount). Age 70 is the latest you can start taking your income, and it will be 132% of the full benefit amount. Note that you get less at 62 because you were unwilling or unable to wait till the full retirement age of 66/67. You get more at age 70 because you did wait.

If married, note the amounts of Social Security you will each receive starting at your chosen age.

For those with union jobs or other private-sector jobs providing a pension, or if you are a veteran of our armed services, your pension(s) will also be a guaranteed retirement income source. If you have a military or corporate pension plan, call your personnel department and get the following details:

- Your estimated pension amount upon retirement

- The age you can/must take it
- Whether the pension plan provides your spouse with a continuing income stream after you pass

Most pensions have numerous benefit options for you. As you approach retirement, you will get the pension's election form to choose the option that best suits you. Below are simplified examples of what those might look like:

- Option A — A payment of $3,000/month for life with your spouse receiving nothing if you predecease him/her (your pension income expires when you do)
- Option B — A payment of $2,250/month for life with your spouse continuing to receive that money if you predecease him/her
- Option C — Some plans allow for a lump-sum distribution in lieu of the recurring monthly income options

When choosing Option C, unless otherwise stated, you'll receive a one-time payment based on the calculation described in the plan document. In order to avoid unnecessary taxes, you should roll those funds into a self-directed IRA. *It becomes your responsibility to invest that lump sum wisely.* After the lump sum has been paid, the pension plan has done its job, meaning you will not receive any further or additional monthly income from the plan. I recommend you seek out an experienced financial planner who is required to act solely in your best interests. Someone who puts your interest before their own is called a fiduciary.

Regardless of the option you choose, it is essential to determine if your pension is viable. You're probably thinking: *What? Aren't all pensions guaranteed by the Pension Benefit Guaranty Corporation (PBGC)?* Unfortunately, no, they are not. It is a myth that the PBGC works like the Federal Deposit Insurance Company (FDIC) does for bank deposits. In fact, if your pension is

not stable, you could receive a lowered payment *or no payment at all*. If you don't think this could happen to your pension, all you have to do is talk to people who worked with WorldCom, Enron, and Polaroid, which collapsed in 2006, 2007, and 2008, respectively. Those companies went very publicly bust, and their pension funds were severely compromised.

Step 2 — Budgeting for Expenses

Don't skip Step 2, because as we will now see, budgeting for expenses requires you to get a bit more creative than just pulling out your household bills.

Part #2a: Retirement Bills and Your Costs of Living

In this step, you should take some time and create an estimate of your income needs during retirement. It may take you several sessions to determine the monthly cash flow you need to live a comfortable lifestyle.

Firstly, you will need to calculate the income required to continue living in your home or residence and pay the related bills. Assuming you continue to live where you do now and want to preserve your lifestyle and current spending habits, what monthly cash will you need? Even if you modify some of your spending habits, it is best to compare the cost of an equivalent lifestyle between today and in retirement.

Base all your expenses on today's amounts. Consider your current spending habits and expenses. Take copious notes and detail the payment amounts for the following (and any other recurring monthly expenses):

- Mortgage/rent — List the current loan balance (if you will continue to pay a mortgage in retirement)
- Cable/internet/mobile phone bill(s)

- Transportation costs — Current expenditures for auto loan repayment, periodic vehicle maintenance/repairs, gas, insurance, registration, etc. (include periodic Uber/Lyft/taxis, car rentals, and the like)
- Food expenses — All your groceries (including liquor, cigarettes, etc. that are recurring or somewhat predictable)
- Home and personal maintenance expenses — Lawn services, home cleaning, laundry/dry cleaning, toiletries, salon visits, etc.
- Out-of-pocket medical expenses — Take the average of what you have spent in the past three years or so and double it
- Leisure — Include club memberships, dining out, food delivery, home grill parties, tickets and snacks for movies, theater, concerts, and expenses for any trips along with their associated hotel and restaurant and transportation costs, etc.
- Other expenditures — Expenses incurred on a recurring monthly, quarterly, or annual basis not included above

Part #2b: Make Your Bucket List a Reality

No one retires to sit on the sofa day and night with the remote control glued to their hand as they flip through the streaming and cable program selections. Almost universally, we all wish to do some fun things in retirement.

In this step, you and your spouse should answer questions about your retirement activities and their costs. If you are unmarried, you can answer the questions yourself or have a trusted friend assist you:

- What fun things would you like to do in retirement?

- What's on your bucket list that you've been saving for retirement?
- What things are you interested in but haven't had a chance to do because of lack of time?
- What hobbies, skills, or abilities would you like to develop in retirement?

Make a list and have some fun! How much will each activity cost on an annual basis? Write them all down and estimate the cost, even if they span a multiyear period.

For instance, is world travel on the list (traveling to Ireland to kiss the Blarney Stone and drink ale or to South Africa to see nature and wildlife)? Or maybe a two-month stay in some warm country/region every winter is more your style? Looking forward to spending a week of evenings every spring in London's theater district? Add all these ideas to the list and determine a dollar value.

Volunteerism

If you see volunteerism in your future, note where and how often that might happen. What dollar amount might be attached to that volunteerism? Get creative and list the types of volunteer contributions (all of them) you'd like to make.

For example, do you want to volunteer at your church or travel in its name for evangelical work? Would you like to tutor local immigrant kids in written and spoken English as a second language or help with inner-city literacy programs for struggling students? You might want to help disabled children, mentor budding entrepreneurs with your workplace wisdom, or build Habitat for Humanity homes. Is one item on your bucket list founding a nonprofit for a mission you are passionate about fulfilling? Add it all to your list and cost it out.

Recreational Vehicle Travel

Traveling by RV is a favorite American pastime that may or may not be on your retirement wish list, but think hard about it now.

Will you be a weekend fishing trip RVer? A three-month-a-year snowbird in Arizona or Florida in your new, tiny mobile house? Will you travel year-round on this or another continent? List your RV, tiny house, and related costs (purchase of a new or used vehicle and "tricking it out," gas and overnight fees, maintenance costs, costs of attractions/activities, etc.).

And don't forget the ubiquitous ocean cruises. If you are thinking about it, include it and cost it out.

List the bucket list activities you didn't have time to do in your working years and will potentially carry out in retirement years. Get creative — and even nostalgic. (Hint: One of my clients wanted to go back to his childhood musician years by purchasing his school-years instrument and budgeting lessons with a teacher.)

List all your creative ideas, cost out the additional budget, and add it to your list of retirement expenses. To arrive at a needed monthly retirement goal income, you now add up all the costs in:

Step #2a — The cost of a comfortable lifestyle.

Step #2b — The costs for some fun in retirement (including your bucket list costs).

Write down this total dollar amount.

Step 3 — Gap-Finder Exercise

Let's review:

- Step #1 helped you determine your total income sources and amounts.

- Step #2 helped you determine your total expense amounts.

In Step #3, make a spreadsheet for yourself once you've determined when you'll retire. If you don't know how to do that, a professional can assist you. These are the categories you will start with:

Age	Income NEED	My Estimated Social Security	Estimated Spouse Social Security	Estimated Pension (assuming it is viable)	Spouse's Pension (assuming it is viable)
66	$15,000	$1,500	$1,500	$3,000	$3,000

You see that the second column, "Income NEED," states the monthly income you need to cover your bills and lifestyle expenses. The third through sixth columns itemize the sources of your guaranteed monthly income. You need $15,000. You have a guaranteed income of $9,000 (from $1,500 + $1,500 +

$3,000 + $3,000 = $9,000).

In this scenario, you have a present gap of

$6,000 ($15,000–$9,000 = $6,000). A gap is a fancy way of saying that *you don't have enough income*. In other words, your living expenses will be greater than your retirement income. Your spreadsheet will illustrate your present income gap and the amount of cash needed to bridge that gap.

Your income in retirement is a sort of three-legged stool:

1. Social Security
2. Pension
3. Income from other investments or savings (nonretirement assets)

Often, the solution to bridging the income gap comes from the third leg of that stool, but it needs to be a guaranteed income for you. When you create your spreadsheet, you will see your present income gap and how much the third leg of (guaranteed) income must cover. Do not make the mistake of assuming the stock market or other future economic event will achieve this goal for you.

It is your job to create a financial retirement plan to determine how much income you need to achieve your retirement goals and make a reasonable assumption of the amount of income you can expect to earn during retirement. This planning ABSOLUTELY must be done before you retire. It must certainly NOT be started after the fact, when you will no longer have the opportunity to make the necessary changes.

Step 4 — The "What-If?" Game

Make no mistake; when you retire, life keeps on happening, and there will be surprises. The next part of your planning is essential "What-If?" analysis, which allows you to identify any potential future gaps that might occur during your retirement years. Do not skip this vital, all-important step!

Ask the questions, and consider them as real, possible scenarios during your retirement years. Then, consider the costs and add them (in new columns) to your spreadsheet. Remember that a fiduciary can help you do the math.

Answer the following questions (both you and your spouse):

1. What happens if my spouse or I become sick? How do increased out-of-pocket medical expenses affect our ability to achieve our retirement goals?
2. What happens if my spouse or I need long-term care (LTC) services or must go into a nursing home? Have

we factored in the dramatically high cost of such occurrences? (Dramatic? YES. The average cost of a nursing home in some states is $150,000/year.)

3. What if inflation were to rise moderately? Factor in a minimum 2% increased rate of inflation and notice the potential future gap it creates.
4. What happens if there is a bear market and the value of our equities plummet 40%? How does that affect my/our potential retirement income?
5. Both spouses need to consider the impact when the other spouse dies. What happens to me and my income if I lose my spouse? There will be a decrease in the amount of Social Security payment, but do you know how it will affect the other legs of the stool we just discussed?

Step 5 — Identify Your Risk Tolerance

Based on the amount of assets currently invested in the markets, you need to decide how much you could lose and still achieve your retirement goals. This assessment is an indicator of your risk tolerance.

For instance, I present the following scenario to my clients: "Say you were to work with me, and we establish a portfolio of equities along with, perhaps, other financial instruments. You then come to my office after six months to review your stock market holdings. How much could your stock portfolio go down with you still being at ease?"

Interestingly, I get answers like, "It could go down 30%, and I'd be fine with it." That amazes me. But I get my clients to think in dollars instead of percentage points by saying, "If you start with a $1,000,000 portfolio of equities and it's now valued at

$700,000, are you as comfortable with that 30% drop?" In many instances, when I phrase things in a dollar-focused manner, the clients reconsider and realize they are not actually as risk tolerant as they imagined.

Think of your portfolio in this way and discover your true risk tolerance. The acid test: How much can you lose and still retain the ability to achieve your retirement goals? Is your portfolio risky? Easy to find out. Go to Yahoo Finance or a similar site and research your investment holdings. Look back: How well did your holdings perform during the dot-com or mortgage crisis? That information will give you a fair indication of how much you could potentially lose in the next economic crisis.

Pull the Plan Together

At this point, you have gathered all your preliminary data. To wrap up this planning phase, you now need to establish plans. You read correctly — you do not want just a single plan but a set of plans, as follows:

A. **Income Plan —** You need an income plan that provides guaranteed income for life at a level that will allow you to accomplish all your retirement goals and dreams. This plan needs to provide income in such a way that you never run out of money. It should account for potential market crashes, inflation, and medical surprises.

B. **Investment Plan —** Your investment plan should be designed to take the least amount of risk needed to achieve your retirement goals. While no investment plan can cover every possible market fluctuation, your plan should be designed to reduce or eliminate unnecessary risks, thereby giving you the highest probability that your goals will be achieved (while staying within

your risk tolerance level). The goal of any investment plan is to allow you to meet your retirement goals and enjoy the rest of your life.

C. **Tax, Estate, and Insurance Plan —** The remainder of your retirement plan should cover tax, estate, and insurance planning.

Tax planning should ensure you pay the least amount of taxes in retirement. Estate planning ensures you have an updated will, power of attorney, health care directives, and any potential trusts. Insurance planning will eliminate any unnecessary policies and investigate potential new insurance strategies you'll need in retirement.

Your financial retirement plan needs to be reviewed and maintained on an ongoing basis throughout the years — and certainly reviewed and revised when you experience any one of the events discussed in this chapter: inflation or other economic event(s), medical event(s), death of a spouse, risk tolerance changes, etc.

One thing you can do on your own that costs you nothing is a beneficiary audit on all your annuities, retirement plans, and life insurance policies. My professional advice is to review after every life event. There are many good reasons for these audits.

A couple came to my office recently for retirement planning. They had been married to each other for 30 years, and the husband had been working at the same company for 35 years. In order to provide them peace of mind, I recommended a beneficiary audit of all their accounts, which they agreed to do.

Sometimes, this review unfolds with no surprises; however, not in their case. I was astounded when I realized that the man's wife was not listed as the beneficiary on his pension or 401(k). Who was named? The husband's girlfriend from before the couple was married! This situation had potentially ruinous ramifications for this couple because the law clearly states (per a Supreme

Court ruling) that the listed beneficiary or beneficiaries on these accounts would have received the assets if the husband were to die, despite having an updated will. His wife would be disinherited without recourse!

We immediately got on the phone with his company's human resources department and had them email a Change of Beneficiary form. At the end of the meeting, I received a thankful hug from the wife and a sincere handshake from the husband. Problem solved.

Moral of the story: Please investigate who you have named as the beneficiary and contingent beneficiary on your accounts. The contingent beneficiary covers the possibility of the primary beneficiary dying before or simultaneously with you. The contingent beneficiary is typically your children or another close relative.

Closing Lessons Learned

Once you have done the legwork (either by yourself or with the help of a fiduciary) and completed a complete written financial retirement plan, you will have a clear indication of when and how well your retirement will go. My experience has been that after you go through this process, there will be one of two outcomes:

- Tears of joy when you realize that you are ***not only*** financially set for retirement right now but can afford to retire ***earlier*** than anticipated if you so choose.
- Deep concern when you realize your goals and income are not compatible and that retirement won't be a slam dunk. However, don't fret; more often than not, a reallocation of your assets or a little longer outlook will get you to your goal.

Chapter 4:

Financial Icebergs Lurking

It is a story of hubris, human overconfidence, arrogance, poor planning and preparation — where Neptune in his oceans had his role to play. It is the story of the sinking of the Titanic.[3]

Most of us know the legendary story of the Titanic luxury ocean cruise ship of a century ago. It sank off the coast of Newfoundland during its 1912 maiden voyage. An estimated 1,500 of its approximately 2,200 passengers descending to a watery, tragic death.

The Titanic measured 882 feet in length and 92.5 feet at its broadest point, making it one of the largest of the day, alongside its two sister ships under construction by the same shipbuilder. They were the new Olympic class of ocean liner.

Long story short, the visible iceberg peeking above the waves was seen in time to steer away from it and avoid it. But it was the larger, more devastatingly destructive part of the iceberg — the vast, craggy mountain of ice hidden under the murky surface of the Atlantic Ocean — which rammed, scraped, and tore away at

3 https://www.history.com/topics/early-20th-century-us/titanic

a massive swath of the ocean liner's underwater hull. The crew could not avoid this unseen obstacle.

Massive leaking and listing of the vessel began immediately. In less than three hours, the great Titanic slipped forever under the surface of the ocean, with 1,500 passengers dead.

That one hidden iceberg did damage that no one could undo.

It is imperative that you understand the hidden icebergs — and there is not just one — that could derail you as you build your retirement nest egg. You need to ensure you are able to achieve your retirement goals. You need to consider these icebergs and make necessary adjustments to your portfolio TODAY. Do not wait until it is too late. That is, don't wait to make those readjustments when in retirement, but make them NOW.

Having enough income is the end goal, but icebergs can blow it up — decimating your wealth and sinking it. The Titanic's crew didn't know what lurked under the surface. Icebergs are dangerous to the largest, "safest" vessels at sea. They are dangerous to your income in retirement — no matter how safe your money seems today.

I will tell you about four major icebergs in particular, though be advised; there are others. Any one of them could derail your retirement voyage. Those icebergs are:

1. Bond market risk
2. Mutual fund risk
3. A long-term care crisis
4. Taxation risk

Iceberg #1: The Boiling, Bubbling Bond Market

Believe it or not, the biggest financial market in the world is the bond market. It surprises people to learn there are over $100 trillion in bonds in the world today, held by both institutions and individuals.

In comparison, there is “only” $70 trillion in the worldwide stock market today, also held by both institutions and individuals.

You might ask, “What does this bond market stuff have to do with me? I own mutual funds, and they are safe — aren’t they?”

NEWS FLASH: Through your retirement accounts and other fund investments, you may be heavily invested in the bond market. You need to understand the extent of your exposure and the potential threat those holdings represent to your retirement savings

This leads me to discuss the importance of interest rates to your retirement. There is a little-remembered relationship between interest rates and bond prices that can explain your potential risk. Let me start with some background. Interest rates are at an all-time low today. They cannot go any lower (as I write this during the fourth quarter of 2020, the Federal Reserve has set interest rates at 0% to 0.25%). You can see the situation from the graphic below. The chart goes from the 1980 high of 20% to the 2020 low of 0% to 0.25%.

Historic Interest Rates, USA, 1971-2020

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
0.25	0.25	20.00	0.25	1971 - 2020	percent	Daily

Source: https://tradingeconomics.com/united-states/interest- rate

So what is this relationship of interest rates to bonds? Two things are possible. First, the megatrend of interest rates moving *downward* has produced a windfall for the individual bond investor. If you own bonds with high coupon rates and interest rates go down, bond prices increase. This results in the value of your bond portfolio increasing. Conversely, as interest rates *rise*, bond prices go down. The graph below illustrates that relationship.

Hypothetical Loss on Bonds

		Years to Maturity			
	If Rates Increase By	3 Years	5 Years	10 Years	20 Years
Interest Rate Increase	+1.0%	- 3%	-5%	-9%	-14%
	+2.0%	- 6%	- 9%	- 16%	- 26%
	+3.0%	-8%	-13%	-23%	-35%
	+4.0%	-11%	-17%	-30%	-43%

Source: Dunham & Associates, Great Migration Series

When individual investors hear that "bonds might be hazardous to their financial health," they shrug as if it is no big deal to them. Now that you have this extra understanding, don't shrug this off. It could be a very big deal in your retirement. Those other nonchalant investors have put themselves in the position of the proverbial frog in the pot of cold water sitting on the stovetop.

Do you remember that old parable about the frog in the pot? If you want to cook a frog, don't put it into a pot of water that is already boiling — the frog will realize the risk to its life and jump out of the pot straight away. Instead, put the frog in tepid water, which is as familiar to the frog as the local pond. Then turn on the burner under the pot. The water gets to its boiling point so gradually that the frog doesn't notice — and it boils to death. (Author's note: No animals have been harmed in this parable.)

What is my point? The burner is already on under you and your bond holdings. While rates can't go lower than zero, over time, they can and will inch *upward*. And that means that the value of your bond could boil into steam — and dissolve into almost nothing. If you believe that interest rates will never rise above the current 0%-0.25% rate, you are fooling yourself. Like the water in the pot that must boil if the flames continue to burn under it, interest rates at 0% in any country must eventually rise. The only direction they can go is up — while taking the value of your bond portfolio down, down, down.

Rates won't hit a dramatically new high overnight, but with the flame under the interest rate pot, they will rise and rise again over time. So now is the time to act.

You may have heard and even be following this conventional wisdom: balance your portfolio by putting your money in a 50/50 allocation (50% stocks and 50% bonds). Moving forward, you cannot take for granted that your bonds represent a "safe haven." If you were to sell prior to maturity, the value could drop substantially because of the relationship between interest rates

and bond prices. Also, remember that in a mutual fund, you have no control over the individual fund's bond holdings.

Stop thinking that putting 50% of your money into bonds will provide a guaranteed safe oasis for your money. Under the current economic cycle, this time-tested strategy is no longer valid.

When it pops, the bond market we have today will in all likelihood prove to be the biggest financial bubble that bursts in our lifetime. Think about it: We've had stock market, mortgage, and dot-com bubbles. We've had gold and precious commodity bubbles. In our history, we've even had tulip bubbles (Holland had a tulip bulb mania — very speculative — that crashed in 1637). But when it pops, no bubble will be bigger or have a more negative effect on the individual investor than the bond bubble.

I can put some numbers on it to illustrate (although there are other factors) the potential cash losses in your portfolio in dollar terms. Say that, hypothetically, you bought a $100,000, 30-year bond. You bought it 10 years ago at 8%. Today — and this is important to understand — if you purchase a new 30- year bond, the current interest rate is, let's say, not 8% but 1.5%.

The 8% bond you bought 10 years ago provided you with $8,000 of income. The new bond bought today at 1.5% provides you with $1,500 of income.

If, for instance, you were to sell the 8% bond today, you would be able to sell it at a huge profit. Why? Because we are in a 1.5% bond environment today, and an 8% bond has a high value in such a low-interest market — there is great interest in your juicy bond!

Fast-forward 10 years into our future, when interest rates have gone up to, let's say, 8%. You decide you need to sell that bond with the 1.5% yield. What would be the result? The answer is that the 8% bond would pay an investor $8,000 ($100,000 x 8% = $8,000) but your 1.5% bond would pay only $1,500

($100,000 x 1.5% = $1,500). Because of the inverse relationship between bonds and interest rates, you'd be selling that latter bond at a dramatic loss — if you find a buyer at all. Of course, you could hold on to your low-yielding investment and recoup your principal at maturity. However, do you have that option in your bond mutual funds?

Today's investors have been lulled into complacency about their bond holdings in mutual funds and other vehicles. Investors are unaware that a 50/50 stocks/bonds allocation is no longer advantageous due to market falloffs and crashes.

Another mutual fund discipline, or call it a strategy, is *target funds*. This strategy could be severely tested as interest rates rise. Target funds are the fastest-growing sector in the industry and very popular in 401(k) plans. The term "target" refers to your retirement age, which serves as a signal to reallocate your portfolio holdings. This is done by splitting a preretiree's funds into stocks and bonds. As the retiree approaches a retirement age of 62-66, the fund will decrease stock and increase bond holdings. Thus, you have the potential of not only having your stock investments diminish in value but with interest rate increases definitely on your horizon, your bond market investments could also simultaneously decrease.

You, the investor, have been lulled into a state of complacency — like the frog in the pot — and need to look at your portfolio with a fresh set of eyes before your wealth dissipates.

The financial "iceberg" I have been describing is another market bubble (the bond bubble) and it is lurking out there. The pending bond bubble is on the horizon, and if you are in retirement now or plan on entering retirement within five to 10 years, you will likely witness the day when this bubbles bursts.

Make no mistake, it may not happen right away, but like the slowly heating water in that pot, rising interest rates are inevitable and will eventually reach a boil.

Remember this relationship:

- Interest rates moving downward = profits in your bond holdings
- Interest rates creeping upward = losses to your bond holdings' value

Don't be deceived by today's apparently safe bond market environment because interest rates can only go up. I discovered a mathematical equation, which says, "You cannot go below zero."

The pot is boiling and you are the frog, sitting complacently in that pot, surrounded by what could be less and less money for your retirement goals. What has worked for investors building wealth over the past 50 years won't work for you over the next 20-40 years (in other words, during your retirement years.)

My advice is to *act as though* the historic bull market in bonds is over. Reassess your portfolio and your plan accordingly — and do this TODAY!

Iceberg #2: Mutual Funds … Size Matters

"Mutual funds, Dan — an iceberg? How can this be a potential problem in my retirement, Dan? I always understood that mutual funds were always a great solution, not a potential problem."

To understand your risk, we must dispel some myths around mutual funds.

Myth A: *Bigger is better*. (Not true!)

In order to understand the challenges that the mutual fund industry is facing today in diversifying their holdings on your behalf, just look at the data. Today, the total amount of assets

(money) being managed in mutual funds in the United States alone is over $21 trillion. The question becomes, "How the heck does anyone manage $21 trillion?" The answer? You don't. They don't. In fact, they cannot; it is impossible. You can understand why by looking at mutual fund holdings of just one major stock, Apple (the computer and phone people).

Apple is a heavily capitalized stock with a market value of $1.9 trillion. On November 23, 2020, the stock had 123 million shares traded. "Traded" means bought or sold, all on that one day.

Now imagine that not every mutual fund manager but just the *top-four funds* decide to sell off *all* their Apple holdings the same day. Here are the top four mutual funds in terms of most Apple stock:

1. One Vanguard fund (VTSMX) owns 114.6 million shares of Apple (or 2.62% of the company's shares).
2. A second Vanguard fund (VFINX) owns 86 million Apple shares (or about 2% of all Apple shares).
3. An ETF (SPY) owns 46.2 million shares (or 1.06% of all Apple stock, with Apple representing almost 5% of the ETF's value).
4. In fourth place, we have another Vanguard fund (VINIX), with 41 million shares of Apple (representing 4.20% of the fund's $240 billion portfolio).

If just these top-four funds sold their collective Apple shares today, 287,700,000 shares would be "dumped" or sold all at once. If you look at the November 23, 2020, Apple trading information that follows, you can easily see that the 287.7 million shares are more than twice the number of November 23, 2020, Apple shares traded!

What happens to any stock price with such a huge sale of its shares is a massive dive. We see a vertical line downward, representing a devastating decrease in the share price. Now, if you continued to hold that stock, what would happen to yesterday's wealth — after today's price drop?

That is certainly hypothetical. The stock exchange has rules that would prohibit such a massive same-day sale of any stock.

Symbol	Name	Price (Intraday)	Change	% Change	Volume	Avg Vol (3 month)	Market Cap	PE Ratio (TTM)	52 Week Range
NIO	NIO Limited	55.38	+6.13	+12.45%	263.379M	159.309M	75.4383	N/A	[illegible]
FCEL	FuelCell Energy, Inc.	8.55	+3.01	+54.33%	231.159M	29.698M	2.528	N/A	[illegible]
AAPL	Apple Inc.	113.85	-3.49	-2.97%	122.967M	150.915M	1.936T	34.71	[illegible]
GE	General Electric Company	10.07	+0.31	+3.18%	101.519M	110.631M	88.2128	28.61	[illegible]
		72.17	+18.28	+33.92%	96.52M	20.923M	51.9448	N/A	[illegible]

Source: https://www.investopedia.com/articles/investing/090215/4- mutual-funds-hold-apple-stock.asp

Do you remember receiving a phone call from your broker during the last financial crisis telling you to sell your stock mutual funds? The answer is: *You didn't*. Instead, you were advised to implement "the business plan." The plan is: "Hold on. The market will come back. Don't worry. It's just a minor, passing correction."

While this advice might work when you are 30 years old and in full accumulation phase, it can be disastrous for you in retirement.

You see, it is impossible to effectively manage such large amounts of money. If, for instance, the fund managers were convinced that the markets were going to go down, what could they possibly do? Do you realistically think that they have the ability to sell TRILLIONS of dollars of individual stocks? Of course not; it would never be possible. If they even tried, they would create a selling panic and obliterate any share price.

For additional perspective, BlackRock and Vanguard Funds manage nearly $13 trillion in total assets. Obviously, the lim-

itations of managing such astronomical amounts of money are evident.

Myth B: *There is real diversification in your mutual fund portfolio*. (No longer so!)

"Dan, I thought mutual funds had built-in diversification? I thought diversification was a good thing?"

Yes, initially that was true, but the assets managed have grown exponentially, and the managers are hog-tied in their ability to provide true continuing diversification. The sheer volume of money makes it difficult to move it easily.

Recently, I had a prospective client come to me for a second opinion on his holdings. He believed he was well diversified because he owned seven different funds from a prominent fund group (beginning with the letter V).

Upon inspection, I found that $400,000 of his $500,000 portfolio was concentrated in four of their flagship funds. Further inspection showed that Fund A of his investments had top holdings of Microsoft, Apple, and Alphabet Inc. (aka Google), while Fund B had top holdings of Apple, Microsoft, and Amazon. Fund C's top investments were Apple, Microsoft, and Facebook. Fund D held Microsoft, Apple, and Alphabet Inc. (aka Google). Without boring you too much, the remaining fund holdings were astoundingly in the same vein.

This client had a situation where he believed his money was well diversified by being in several funds. In fact, he owns stock in the same companies across those funds. If there were, hypothetically, a prolonged sell-off of tech stocks (though, in spite of the dot-com crash, we find it hard to imagine today), his retirement would be blown to smithereens.

Please note: I actually like the four companies this client held, but I believe if you like them or any other stock that much, you

should just buy them on your own rather than operate under the illusion of a diversified portfolio. You see that your diversification — by investing in more than one big mutual fund — is not as real as you might have thought.

Iceberg #3: A Long-Term Care Crisis … Denial Is Not a River in Egypt

We know that LTC is an issue, but how much of an iceberg could it possibly be? As you know, life happens, and it won't always be "the good stuff." One of the biggest retirement icebergs is a serious or chronic long-term illness for you, your spouse, or for both of you. That is because "illness" is costly …

Just hoping that a long-term care crisis never happens to you is not a good strategy. In fact, approximately two-thirds of us will need some type of assistance, whether it be home health care, adult day care, assisted living, or nursing home care. To make matters worse, over one in 10 of us will require that care for longer than three years (three very expensive years if you do not plan correctly).

Let's take a look at the following chart created by Genworth Financial. The chart shows the national averages for the listed types of long- or short-term care costs.

One of the limitations of this chart is that it doesn't consider where you live in retirement. That number will decidedly fluctuate if you live on the East Coast or West Coast as opposed to the Midwest.

I can tell you from personal experience that the amounts shown in the chart are low. When my mother chose to stay at home for the final six months of her life, we hired a nurse to be with her 24 hours a day, seven days a week. I paid my mother's bills during that period, and the cost was dramatically higher than the numbers cited on the chart. As I mentioned above, if

you live in California, New York, or Massachusetts, a semiprivate room in a nursing home could be as much as twice the cost shown on the chart.

Cost of Care

Monthly Cost	USA – National 2019
Home Health Care	
Homemaker Services	$4,290
Homemaker Health Aide	$4,385
Based on annual rate divided by 12 months (assumes 44 hours per week).	
Adult Day Health Care	
Adult Day Healt Care	$1,625
Based on annual rate divided by 12 months	
Assisted Living Facility	
Private, one bedroom	$4,051
Based on annual rate divided by 12 months	
Nursing Home Care	
Semi-private room	$7,513
Private room	$8,517
Based on annual rate divided by 12 months	

Source: Cost Chart, ©2019 Genworth Financial, Inc. www.genworth.com/costofcare; Genworth is the largest insurer of long-term care in the USA.

We have established that there is a probability — not a possibility — that you will need services, and as you can see, the cost of care will be very high. So, what is your plan for this potential expense? In my experience, I typically see one of three scenarios:

1. A large segment of my clientele has chosen to *self-insure*. This means those clients have sufficient guaranteed

streams of income to pay the monthly bills for such care services.

2. Many people — indeed a large segment of my clientele — have chosen to get sufficient *LTC insurance* to defray or fully cover the costs.
3. Another large segment of my clientele uses a combination of the two — *insurance and cash flow* — to cover the costs.

The most important thing you can do is plan for the inevitability of needing to use such long-term care services. Regardless of your financial position, there should be a line item included in your financial retirement plan for potential long-term care expenses. If you do not end up needing those services, your family will thank you. And if, in fact, you require such services, your family will REALLY thank you!

Please keep in mind if you do not have the means to effectively plan for these costs, you will be covered by the Medicaid program in the state where you live. You must also be cognizant that most states generally only give you help when your personal nest egg is almost or fully depleted.

The bottom line? It is best for all concerned to plan and enact a long-term care strategy when possible.

Iceberg #4: Tax Time Bombs

It might surprise you to learn that our present (2020) tax rates are the lowest they've been in well over three decades. Currently, the total U.S. government debt is more than $25 trillion and growing rapidly! Washington lawmakers have no choice but to find additional revenue to fund this burgeoning deficit. It begs credulity to think that taxes will not go up in the not-too-distant future. Not only will taxes rise on the income of the nation's

working population but so will the future taxes on your retirement income held in IRAs and 401(k)s that you've earmarked for your retirement down the road.

The reality is that, in a sense, the monies in your IRAs and 401(k)s are joint accounts with the IRS! That is because, as you recall, those types of accounts are tax-deferred, and when you start withdrawing from them (or at a maximum age), the IRS will take its share out of the withdrawn amounts.

What you need to do is accept that taxes will rise in the short term (now and in the next few years) and in the longer term (when you are in retirement and, perhaps, throughout most or all of those years). Accept that you need to plan for that taxation.

Some of the things that are being discussed in Washington to increase revenues (i.e., to raise taxes) are:

- An increase in marginal tax rates
- The elimination of basis step-up (applicable in the inheritance of long-held stocks that have radically appreciated since they were bought often decades earlier at low, low prices)
- An increase in capital gains tax rates
- Potential state income tax hikes

These are just some of the real proposals being considered. The bottom line is that you will pay increased taxes during (or before) your retirement — and you need to plan for that increase.

"What should I do?" you ask. As I emphasize throughout these pages, you need to take a sober look at your situation and take off those rose-colored glasses. To begin to tackle the tax quandary you will face, you should do a mock tax return on your potential retirement income. What this means is that by using the estimated income streams you'll need in retirement, you can estimate the tax liability for that future time.

You have to stop thinking of your portfolio in its entirety and, from now on, break it down into three separate sections:

Segregate any nonqualified income (e.g., nonretirement assets) and figure out the potential tax, such as those taxes on ordinary dividends or capital gains.

Segregate qualified assets (e.g., pension, retirement assets) on which you have not yet paid income tax. This includes 401(k) and SEP accounts, your pension, etc. Factor in any withdrawal to fund your retirement from this category of income since it will be taxable by the federal government and, in most cases, by your state.

Segregate tax-free assets (income from municipal bonds in most cases are federally tax-free; the withdrawal from a Roth IRA or a Roth 401(k) is also tax-free).

Once you have the amounts for each category, you can then organize your income strategy to minimize the taxes you will have to pay in retirement. This process requires a substantial amount of work right now — but it is worth it. You can save big in your retirement over the years by paying fewer taxes.

No discussion of taxes is complete without mentioning taxes on your Social Security benefit.

Following is a thumbnail formula on how your Social Security benefits will be taxed. You can find a similar summary right on the government's Social Security website (ssa.gov).

- If you file a federal tax return as an individual and your income is between \$25,000 and \$34,000, you may have to pay federal income tax on up to 50% of your Social Security benefit amount.
- If you file a federal tax return as an individual and your income is more than \$34,000, you may have to pay income tax on up to 85% of your benefits.

- If you are filing a joint return, and you and your spouse have a combined income between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefit amounts. If your joint return declares more than $44,000 in income, you may have to pay income tax on up to 85% of your benefits.
- If, however, you are married but filing a separate tax return, face this fact: You will probably pay taxes on your Social Security benefits according to a set formula: Adjusted gross income (AGI) + nontaxable interest + half of your Social Security benefits = your "combined income."

This is why you need to have your mock tax return down pat and fully understand how your income will be taxed. With that information, you can arrange your retirement, and you might be able to minimize any taxation on your Social Security benefits. You could arrange your affairs to utilize income from your nontaxable assets in order to keep your income under the threshold, allowing you to receive your Social Security benefit tax-free. This is a perfect example of why you need to understand your total tax liability by segregated category.

Closing Lessons Learned

- Don't assume that the market truths of 30 years ago (when you began your wealth accumulation journey) are still true today. Many are really myths.
- Identify a professional financial advisor to help identify not only the four icebergs I discussed, which may be lurking in your future, but to identify all the other icebergs you might experience.

Chapter 5:

The 1% Solution

About 15 years ago, I interviewed for a position as an advisor within the private bank branch of a prominent New England regional bank in Naples, Florida. The job they were offering was to work with their financial advisory team to service their clientele and cultivate new business.

First, what exactly is a private bank? It is a unique bank department that offers banking, investment, tax management, and other financial services, typically to high-net-worth individuals with high-level deposits and sizable assets. Back then, $10 million or more in assets were considered a bare minimum at these institutions if you wished to be eligible as a new client. Fast-forward 15 or 20 years to today, and those minimums are often in excess of $25 million. In short, private banking is a more exclusive subset of banking geared toward the very wealthy.

At the time, I was living in the Boston area, which meant if I were to accept this position, I would have had to uproot my family and move down South. So, I decided it would be good to take my family — my beautiful wife, Cathy, and our three then-young children, Kelsey, Morgan, and Danny — to Florida at the same time. They would look at houses and check out the school

system as I worked my way through a very long day's interview process with the team at the bank. As we parted ways after breakfast, Cathy started the day with a local real estate agent and then spent a good portion of the afternoon at a local playground so the kids could play.

Keep in mind that this was March and hardly the dog days of summer. When we met up for dinner that evening, Cathy and I had a long "heart-to-heart." She told me to start saving my frequent flyer miles because if I were to take this job, I would have to commute from Boston. I looked at my children. They were wiped out, but worse, the palms of their hands were scorched an apple red from being in contact with the sizzling jungle gym equipment at the playground. To say they looked overheated was an understatement. So, lifestyles being considered, we came to the agreement that Naples, Florida, was a pretty nice place to visit, but we would never want to live there.

As you might guess, I declined the job. However, I spent nearly 10 hours within the private banking world's inner sanctum and gained invaluable insight into how the affluent manage their money. As part of the interview timeline, I sat down with the other advisors at the bank, and they described the wealth-preservation and income strategies they employed for their clientele.

What I learned absolutely floored me. You see, the rich don't invest their money like the middle class. They do not blindly put their money into the well- known "household name" mutual fund companies. Nor do they actively trade individual stocks (that is, no chasing a "quick buck"). Instead, I learned that the strategies the wealthy employ are actually pretty straightforward and uncomplicated — but highly effective.

During the first part of the day, I sat with the portfolio manager. Yes, I was surprised to learn that the branch had its own on-site money manager. Bob's job was to manage the branch's approximately $300 million in client equity investments. He

bought individual stocks in a diversified portfolio. At his discretion, he had the authority to decrease his holdings if the valuations became too high or increase his holdings if the valuations became attractive. Bob was clearly guided by that old adage: buy low and sell high — not the reverse! Obviously, this manager's approach was a far cry from that of the big-time mutual fund managers burdened with allocating trillions of dollars and don't have the luxury of rearranging their holdings.

The light went on for me: "Bigger is not better" in the world of money management. The smaller managers have a distinct advantage. Managing money is much easier when you have the ability to assess risk and, if necessary, move a portion or all of your positions to cash at will.

The second team advisor I sat with during that March interview was responsible for the income portion of the clients' investments. Beth's job was to design an income portfolio to provide all the guaranteed income needed for the bank's clients to maintain their lifestyle. In other words, if an individual client needed $200,000 a year to pay the bills and live comfortably, her task was to allocate the necessary funds in investments to generate that income.

For affluent retirees, *income is king!* At that time (the early millennium), the vehicle Beth relied on was tax-free municipal bonds to provide that cash flow. Surprisingly, I found that in addition to large municipal holdings, the bank's typical client often had the bulk of their investment portfolio in what would be considered safety-type investments.

I also found it very interesting that the rich don't often speculate with a large portion of their money (as you might suppose they do) but tend to gravitate toward principal preservation. They understand how much income is enough to support their lifestyle and the proper allocation needed to achieve those income goals. I often use the analogy of a barbell to describe wealthy people's

approach to investing. This piece of weight-training equipment consists of a long bar with weights attached to each end. The affluent more often than not have a lopsided barbell, with income-producing investments being the far heavier side. On the lighter side of the barbell, they place assets in vehicles that can provide future growth. This is a far cry from the wheeling and dealing stereotype image we have of the top 1%.

Reworking My Approach

After my sojourn to Naples, where I learned how the private bank industry works, my perspective on managing my clients' portfolios changed dramatically. I realized that nailing down enough guaranteed income to achieve my clients' retirement goals was the No. 1 priority. And due to its trillion-dollar size, I began to see the limitations of mutual fund investing and the advantages of smaller, individually managed portfolios.

Well, my client base would not qualify as a who's who of the rich and famous, but most have squirreled away significant cash in their retirement accounts. If you have reasonable monetary goals and don't aspire to live a rock-star lifestyle, I have generally found that I am able to help you allocate your assets to achieve your retirement goals and live a comfortable, worry-free retirement — for the rest of your life.

Closing Lesson Learned

- Since my Naples interview 15 years ago and through today, my mission as an advisor has always been to offer the same wisdom and strategies afforded to the very wealthy — the 1% of us whom we believe always seem to have the cutting edge over everyone else. You need an advisor who can do this for you.

Chapter 6:

Real Risks, Real Solutions — Real World

At this point, your head might be spinning, but take a deep breath. I've presented to you what might be new concepts, new ideas, and new ways to think about your investments.

"But how does it all help me with my retirement plan?" you ask. "How do I use this information — about icebergs and all the rest — to get it right?"

To make this real, and perhaps help you relate better to these ideas of risk and the solutions, this chapter contains composite scenarios inspired by real clients of mine (in other words, real solutions to real problems that you, too, may encounter). The clients have come to me with some of the risks I talk about in this book — often without knowing it. We found real solutions for each of them, as you will see.

You've heard it said, "Names have been changed to protect the innocent … and to give the guilty time to hit the road with a head start?" Please note that there are absolutely no "guilty" parties in any of these stories. I only mention it to emphasize that my firm, Sullivan Retirement Resources, protects the privacy of

all our clients and, thus, I have changed all identifying details of these real people, including, of course, their names.

With each prospective client to our firm, I book three meetings, and the process unfolds in the following manner.

Initial Meeting

Most importantly, at this first meeting, I try to get to know you as a whole person and not as a "net worth" number. I don't discuss products/solutions with you yet because it is too early for that. I ask you to share your goals, aspirations, and inspirations — for today and the years of your retirement. At this point, we want to have some fun and talk about what you have been putting off but dream of doing in retirement. From there, we determine your present and future income needs. We measure your risk tolerance. We also discuss your biggest financial concerns — the "what-keeps-you-up-at-night" issues. At this meeting, we review all your investments and accounts to ensure we have a complete and accurate picture of your financial situation.

Second Meeting

I present you with a custom financial retirement plan, which I have spent time producing since our initial meeting.

The plan has five distinct parts:

1. Your Goals — Like everyone, you have *needs*, a *desire for a comfortable standard of living* (lifestyle) during retirement, and *dreams*. (Remember, we spent a good amount of time itemizing your bucket list in the previous meeting.)

    a. We state your goals/lifestyle objectives, looking at them in terms of income needs, both for the short term and the duration of your retirement.

b. I show you the potential icebergs/risks that could sabotage your retirement.

c. I set forth step-by-step instructions for overcoming/resolving those iceberg risks we have identified so that you may enjoy a worry-free retirement.

2. Income Plan — I will show you how to ensure a guaranteed income for your lifetime as well as how to build in the ability for increased income streams as you get older. If you are married, that income needs to be guaranteed for both of your lifetimes.

3. Risk Analysis — You will learn how much of your current portfolio you could lose during the next "correction" (a fatal fluctuation in the market). We have experienced two major corrections during this millennium: the dot-com crash and the mortgage and financial meltdown.

4. Investment Plan — I'll show you how to get the returns you need, eliminate unnecessary risk, and mitigate the remaining risk your portfolio might hold.

5. Side-by-Side Analysis — We put your current investments in "competition" with our firm's recommended investments, so you can then judge for yourself how your money could have performed if you had been invested with our firm.

Third Meeting

After you've had a week to sit, review, and think over the plan we presented to you, we get together again so that I can answer any and all of your questions that have arisen. If this plan delivers and succeeds in helping you realize all your retirement goals, you

need to make a decision: Will we work together or not? If it is a fit for you, I have my staff prepare paperwork so that you can engage my services. However, if it is not a fit, the written plan is yours to keep — as new and valuable information I will have offered to you, no strings attached.

Let's get into some of my "clients'" stories, keeping in mind that they are composites of clients I have served over many years and not any particular person or couple.

Archie and Edith

Let's call this couple Archie and Edith, just for fun. Archie and Edith had attended the Retirement 101 class I teach at the local college and later made an appointment with me. Archie was a union man who had worked for nearly four decades at a manufacturing plant. His wife, Edith, was a stay-at-home mom who focused on raising their three children, keeping their home, and enjoying the occasional community volunteer work.

Before our meeting, Archie had received his retirement packet from the plant, and the couple was interviewing several advisors to determine their best course of action. Like most couples, Archie's opinion of "how things stood" was quite different from Edith's.

During our initial fact-finding meeting, I got to know Archie and Edith and uncovered the following information:

- Archie may have been earning the money, but Edith had always been hands on in managing it with him.
- Both are age 67 and at full Social Security retirement age. Archie was eligible for a full benefit. Edith was eligible for the spousal benefit (entitled to receive the equivalent of about one-half of Archie's payout for herself).

- Archie was covered by a pension at work. He was fully vested, but he was concerned because the company has been laying off many of his coworkers.
- They owned their home, and it was paid in full.
- Archie had accumulated over $600,000 in his 401(k) account.
- They had a $50,000 CD and over $20,000 in cash savings.
- They had three adult kids, all out on their own and working, and seven grandchildren (with another grandbaby on the way).
- In effect, they were living the American dream now and had an American-themed bucket list for their retirement years. Their goal was to purchase an RV and travel the continental United States, visiting all-American sites, such as Mount Rushmore, the Grand Canyon, San Francisco's Golden Gate Bridge, the Anheuser Brewery in St. Louis, and so on.
- Our analysis concluded that $5,000 monthly in after-tax income would be needed to pay their costs of living, and an additional $20,000 a year would be needed to have a "fun life." They also wanted to leave a legacy for their grandchildren.
- Edith — and this is an important point — was very concerned that they would run out of money and be a big burden on their kids.

Iceberg #1: Archie's Pension

When Archie mentioned that people were currently being laid off at his plant, it was a bright red flag for me. Is the company pension going to be in good shape and solvent for the long term?

Before moving any further, the first question that we needed to ask was, "If Archie were to elect the monthly check from the pension, do we trust the fund to remain solvent — or is there a chance that the fund could run out of money?" We also determined that we needed to find out if the company had a lump-sum distribution option in lieu of monthly payouts.

Of course, I cannot predict future events for any person nor any corporation. To find out more about the company's pension fund health, we ordered the fund's annual report to gauge its long-term viability. I received the report via email. After my review of its assets and liabilities, it was not hard to see that there could be some potential problems with the pension fund down the road. In effect, like a majority of corporate pensions today, the pension was underfunded, and Archie needed to consider the possibility of future diminished monthly payments.

Fortunately, we found out that Archie had a choice with his pension. He could either take a monthly sum that would pay him and Edith $2,472/month for life or "opt out" and request a one-time, lump-sum distribution of $317,000.

The big question then became, "What should we do? How could we invest the lump-sum amount of $317,000 to provide Archie and Edith with a 'pension-like' income for life?" After investigating all their options, I determined that I could secure an investment that would provide a guaranteed, lifetime monthly income of $1,817 by purchasing an annuity with a large annuity provider. So, do you take the $2,472 (maybe for life) or do you take the $1,817 (the safer thing)?

Iceberg #2: Archie's 401(k)

If the couple added up their pension (or pension equivalent) and their Social Security (guaranteed cash flow) funds, they would have an income of roughly $5,900. Archie and Edith determined

that they would need a gross income of closer to $7,500 to live and an additional $1,700/month for play money. This is not to mention that they will need additional cash flow in the future to combat the effects of inflation.

Therefore, their "present income gap" is over $3,300/month, and they needed a plan to bridge that gap. What was Archie's plan? He was going to draw from his 401(k) to make up the difference. However, there is a major problem with this approach.

Archie is very conservative (or so he thinks) and thought that since all his 401(k) money was in bond funds, he'd be able to safely draw out additional cash on an as-needed basis without a problem. Edith, though, had paid attention at my class and learned (as you did in an earlier chapter of this book) that bonds and bond funds, in particular, might not be as safe a haven as they were in times past.

If this problem isn't addressed right now and the inevitable gradual rise of interest rates occurs during their lifetime (it will), the couple could see significant erosion in their principal. Edith's worst nightmare of running out of money would turn into a distinct possibility.

What's the Solution?

The first decision was about Archie's pension. Actually, Edith made that decision and convinced Archie that rolling the lump sum into an IRA was the prudent route to go. In her mind, the decision was easy. Her sister Maude had worked for Enron in Houston, Texas, and witnessed her pension evaporate when the company went bust.

The second decision was about Archie's 401(k) account. We reviewed the available options and determined there were better and more options available in a self-directed IRA account. We

concluded that Archie needed to roll his 401(k) monies into an additional (a second) IRA account.

What are we going to do with these funds? In total, there is approximately $1 million to invest. The answer is that we needed to take about 75% of those monies ($750,000) and put them into a vehicle that would provide monthly guaranteed income for the rest of their lives. What was that vehicle? Well, in a sense, we would call it a "private pension" or, more accurately, a "private pension annuity."

When Archie heard the word "annuity," he rolled his eyes and said, "Aww, jeez! This fella here is trying to sell us an annuity!" Edith looked at her spouse and bluntly told him to "listen to what the man has to say." I explained that this investment fell into the category of an annuity and that I understood his distaste. I said that I could agree with him that roughly 90% of annuities out there are not a good place to put money.

I explained that in spite of the "bad rep" they seem to have, there are some exceptional annuity products. As an independent advisor, I have access to hundreds of different annuity programs. My job is to research and recommend the best programs available for you to achieve your goals. Some of the features that must be included (and that I explained to the couple) include the following:

1. You cannot lose your principal. In other words, if the markets were to crash, the investment you hold would not lose any value.
2. Guaranteed income for the remainder of both spouses' lives (no matter how long they live) must be part of the contract.
3. Liquidity, the ability to access a portion of the principal, a minimum of 10%. You must have access to cash in case of an emergency.

4. All remaining principal and interest in the account are to be paid to your beneficiaries at the time of the death of the last surviving spouse.
5. Competitive interest-earning potential is desirable, so the interest needs to be uncapped (no limit). Usually, interest is credited as a percentage of the upside of a stock market index — such as receiving 40% of the gain in the S&P 500 but with no downside risk.

Even with all the above features, how does an annuity work? More importantly, how does it help Archie and Edith achieve their retirement goals?

First and foremost, like a pension, the annuity I had in mind, once activated, would pay a monthly income that is not only guaranteed but will continue to pay as long as you are on this earth. If Archie were to pass on, Edith would continue to receive the same monthly check amount for the remainder of her life. Remember, we have a present income gap of $3,300 a month. This strategy will pay them over $3,500 a month and solve that first problem.

Second, unlike a traditional pension, you will have access to the principal in case of an emergency. However, keep in mind that if you withdraw in excess of your monthly payment, you will have that payment adjusted to a slightly lower amount.

Third, unlike a traditional pension, once you start this private pension, you will be able to stop it and, if you choose, spend the remaining principal in any way you wish.

Fourth, a traditional pension does not pay your heirs anything when you die, even if you have only received your payments for a single year. Contrary to that, with this private pension annuity, your heirs will receive the remainder of the principal balance. Depending on the interest rate you received during the life of the

contract, the principal balance could be greater than your original investment. While that is typically not the case, the terms of the contract allow for that possibility.

Future Gaps Solution

As they learned in my class, we are concerned with both present and future gaps in income. Remember, we have so far only invested 75% of the rolled-over amounts into Archie's two private pension IRAs — a total of $750,000. We want to invest the remaining $250,000 with a private wealth money manager who will invest in a diversified, individually managed portfolio of equities.

Remember how the 1% invest their money? We are employing the same strategy for Archie and Edith — a lopsided barbell investment strategy. You will look to a professional money manager who uses investment strategies similar to the strategy employed by wealthy investors: flexibility and small portfolio size. In plain English, if their metrics indicate that we could be heading for a rough patch, the money manager has the ability to move all or a portion of his clients' stock positions to cash. (Sorry to burst your bubble, but when your money is in an enormous mutual fund, your money manager does not have the luxury of this kind of mobility. Those funds are simply too large.)

How does this help Archie and Edith? Retirement is a long process, and they need to plan long term. They are going to need additional sources of income in the future. In time, a prudently managed portfolio is their best chance to reach their investment goals. As time goes on, and when their living costs increase and they find they need to "give themselves a raise," the funds will be available that could potentially generate additional amounts of income.

Tim the Tool Man and Jill

Let's rename my next clients and call them Tim and Jill. They both worked for the state and have generous pensions. Both have recently retired and accumulated a substantial nest egg of over $1 million.

I quickly observed that Tim is what you would call a DIY guy, a do-it-yourselfer. He doesn't like to pay for advice about anything. Jill even jokes that Tim would do his own dental work if he could, but I suspected her "voice of reason" prevailed most of the time. To give Tim his due, I looked at his investments, and he was on top of things.

So, what would a couple with secured pensions and no desire for advice be doing in my office? The answer is: the spend down.

A "spend down" is a term you often hear with regards to qualifying for financial aid for nursing home care. In a nutshell, to qualify for government help with your nursing home costs, you literally have to spend your assets down to very near zero.

Both Tim and Jill have seen firsthand how their parents' nest eggs whittled down to near zero.

Tim's mom, unfortunately, became very sick in her 60s. His mom recovered, but she spent nearly seven years in a nursing home facility as a result of her illness. When she died, almost all of her resources had been depleted. Tim's and his siblings' inheritance was gone.

Likewise, Jill had a similar experience with her father. Although he was in relatively good health, her father required the support provided by an assisted living residence and resided in such a facility for over 10 years. By the time he qualified for Medicaid, all his retirement accounts, savings, and the equity in his home were down to $2,000. That is, in fact, what the state of

Massachusetts "allows you to keep" in order to qualify for Medicaid support.

This is the quandary Tim found himself in: He and Jill have two children to whom they want to pass their $1 million. They realize there is a distinct possibility, if not a probability, that they would eventually require some type of long-term care. They don't want their children to witness the spend down and go through their families' financial hardships. Tim, hoping that a professional would have a workaround or solution for avoiding the spend-down scenario, agreed with Jill to seek professional guidance. This was one case where Tim let go of the DIY approach. They came into my office to discuss a possible solution to this real concern.

After sitting with Tim and Jill for some time to review their financial picture, I uncovered a huge potential problem. When filling out their state pension paperwork, they'd both chosen the single life payment option. I guess they had been enticed by the larger monthly payment, which is great, but what happens to that money if one of them dies? The surviving spouse's income is abruptly cut by 50%. Upon the death of the pension beneficiary, the payment stops.

There was an uncomfortable silence in the office. What should they do? Tim's first reaction was to say, "Dan, tell me about long-term care insurance. I have been researching it on the net and think that it is an area that might make sense."

I answered that LTC insurance is fine, but it might not be the answer.

Problem #1

With traditional long-term care insurance, most policy premiums are not guaranteed to remain fixed. This means that if the insurance carrier deems that the cost of providing the stated ben-

efit to you has gone up, they can apply to the state regulators and ask for a premium rate increase. Invariably, the state will grant the requested increase.

As a result, we have seen that premiums have increased by as much as 50% all at once (and we probably will see similar increases in the future). The problem has two facets: First, you will need to have the money to pay the increased premium amount. Second, you do not receive a corresponding increase in the benefits.

Problem #2

Tim and Jill think they will need to use the benefit for nursing home care, but what if they don't? In a traditional LTC policy, you are, in effect, purchasing a benefit of, say, $200,000 payable over two years.

If Tim were to get hit by a bus and die, he obviously wouldn't need the services of a nursing home or assisted living facility. What happens to the $200,000 benefit then? Though he had been paying his insurance premiums (perhaps for years), his surviving spouse would be shocked and devastated to learn that the $200,000 benefit goes back to the insurance company. In other words, your premium money has gone down the drain.

Now, let's say Jill goes into a nursing home and dies after six months. She has used one-quarter ($50,000) of the benefit. What happens to the remaining $150,000? You guessed right: The insurance company keeps it.

What's the Solution?

In this scenario, what solution can I offer Tim and Jill? Remember, they came to me to discuss one problem, but now we realize they have two major financial "icebergs." How can they protect

their nest egg from a spend down and make sure the surviving spouse doesn't take a 50% pay cut?

The answer is for each of them to purchase a permanent life insurance policy with a long-term care living benefit — known as a hybrid insurance policy. We did some research in my office and presented the couple with several options. They decided they would each purchase a policy with a $500,000 hybrid benefit, naming each other as the beneficiary.

I know your head is hurting at this point. But a hybrid policy is actually pretty simple. Each spouse's $500,000 policy is paid either for long-term care or a death benefit for the surviving spouse or a combination of the two.

For example, let's say Jill needs to go into a nursing home and stays for two years. The policy would have paid the facility $100,000/year or $200,000 in total. After two years, Jill dies. In this case, does the remaining $300,000 benefit go to the insurance company? No! It goes to Tim in a tax-free benefit. Likewise, if Tim gets hit by a bus and dies before needing any elder care, Jill would receive the full $500,000 benefit. In either case, the surviving spouse would receive a big tax-free check to ease the pain of losing 50% of their pension income.

Problem solved. Now Tim and Jill can move forward and enjoy a stress-free retirement.

"Well," you might say to me, "Why haven't I heard of this hybrid insurance instrument before?"

As an insider tip to how the financial services industry works, remember to always "follow the money." If a for-profit insurance carrier can issue a policy and raise the premium while not increasing the benefits, and then go ahead and pocket all the remaining funds upon the policyholder's death, what for-profit business would not set up its contracts in this way?

As a consequence of this pursuit of profit, there is a monetary incentive for an agent or an advisor to recommend the traditional model for LTC coverage. Bluntly stated, as an advisor, I get paid a whole lot more to recommend the old type of policies that mostly benefit the insurance carriers.

George and Louise

George and Louise (called "Weezy" by family and friends) are Archie and Edith's neighbors. George recently inherited some cash. He and Weezy are using the funds to follow their dream of business ownership and purchased two dry-cleaning stores. By "purchase," I mean that George put a down payment on the stores and will pay off the remainder monthly. With that accomplished, George quit his job as a bank manager.

Edith got them to attend my class, and George perked up immediately when I spoke about tax-favored investment vehicles. You see, George hates to pay taxes — with a passion! His new life strategy is, in fact, to open businesses to take advantage of tax incentives.

However, there's a problem with his strategy. In his previous employment, he contributed heavily to his tax-deferred retirement plans for several decades. He lies awake at night, cringing at the thought of all the future taxes he will need to pay when he starts withdrawing those funds. He has come to the conclusion that taxes will do only one thing — go up for the rest of his life — and he wants to be proactive. What should he do? That is the question he and Louise came to see me about.

They came in to talk strategy. First things first, I am not an accountant and do not give tax advice. So, during our first meeting, we talked generally about strategy, business, and investments going forward and how all that might fit together. I thought it would be advantageous for everyone to include both his CPA

and attorney at the next meeting. (As you might guess, this was more than my typical three-meeting process, as there was a lot of information to be synthesized.) Following are some of the main points I picked up as I got to know this interesting couple:

- George is just 60, and Louise is 58 years old.
- George and Weezy determined they would use the remainder of their inheritance money to live on for two years as the business grew and became profitable.
- George's accountant indicated to me that his taxable income would be negligible for those first two years due to the business's startup costs and various tax incentives he could benefit from.
- George has accumulated nearly $750,000 in his 401(k) account and is anxious about the market.
- Weezy had initially agreed to help George with the business but realized she could not work with him full time; she kept her part-time job as a school aid at the local elementary school.

Really, the main question they had was, "How can we minimize the taxes on George's tax-deferred 401(k) in the future?" George had noted from my class that there are three tax classifications for money:

1. His inheritance is in a savings account and is classified as "after-tax" monies and, therefore, nontaxable. The IRS is not taking a pass on collecting tax. No, indeed. The taxes were paid on the money by the estate before George received it.
2. The money in his 401(k) is "tax-deferred" and will be taxable only upon withdrawal. George will need to pay this tax down the road.

3. The third classification of taxation is "tax-free income." The two biggest components of this category are municipal bonds and distributions from a Roth IRA.

George's interest was piqued at the words "Roth IRA." We discussed converting his 401(k) into a Roth IRA, but we wanted to make sure he fully understood the ramifications of such a huge move. George was all ears. He learned that Roth IRA assets produce a tax-free income when he retires. In addition, he learned that withdrawals are tax-free and have no impact on the taxation of his Social Security benefit.

However, there is one problem: When you convert money from a tax-deferred 401(k) or traditional IRA into a Roth IRA, the money you transfer over is taxable in the year you make change. The IRS will collect the conversion tax with the rest of the income tax George will be filing in the spring. The good news came from his CPA: The ordinary income generated by the Roth IRA conversion can be offset by business losses and allowed business deductions reported on the same tax return. His accountant estimated that the business would generate significant losses in years one and two of activity.

George had to decide if he was willing to pay some tax up front in this way in order to save dramatically on future taxes. It was important for us to work with the accountant to understand the mechanism clearly. It turns out that this strategy would indeed be a significant benefit for George and Weezy. Remember that their income for the next two years will be negligible, and they will live on after-tax income. We worked up some numbers with the accountant and determined that we could convert 50% of George's 401(k) this year and convert the remainder of it next year — as a strategy to minimize his taxation.

George and Louise, as you recall, are Archie and Edith's next-door neighbors. They both attended the class I held and also

learned that ***losses will hurt you more than gains will help you in retirement.*** This is particularly true with Roth IRAs because you are paying taxes up front. If the value of the Roth goes down, you lose a great deal of its benefit.

Archie had purchased a substantial private pension in his IRA. One of the main features that "sold" him on it was the fact that if the market went "to hell in a handbasket" (Archie's words), his account would not go down in value. This is one issue that Archie and George agreed on; in fact, it's probably the only one they had ever agreed on! George knew that he did not need to hit a home run with this money. He just needed to have good competitive returns, a lifetime guaranteed income, and most of all, to protect his hard-won nest egg.

George and his spouse's future looked very bright indeed. In a relatively short period, the couple can look forward to banking a substantial income from their dry-cleaning stores. George is informed about and relieved on the taxation issue since we found great solutions. They also both have the peace of mind that they can turn on their private pension annuity at any time and receive tax-free income for life.

Mike and Carol

Both Mike and Carol are divorced from their first spouses, and each has three precollege-aged kids. Carol is a real estate agent (age 56), and Mike (age 55) is an architect with a firm. They recently got married and joined their households.

Their primary concern at this point is to get organized and get a second opinion. The couple has many financial "balls" in the air, the first of which is that they have a bunch of kids to put through college! Financially, they have done pretty well but realize they need to consolidate their finances and move onto a prudent path that allows them to navigate their new shared future.

With six kids to take care of and a newly minted mortgage on their 3,800-square-foot house, their financial task ahead is formidable. They realize that they will not be able to put huge amounts of money toward their retirement for several more years.

Mike's cousin, Sam, who recently sold his butcher shop, now works for a big-box investment firm. Mike had a 401(k) at his previous firm worth over $400,000, and Sam convinced him to roll it over into his firm's IRA. According to Sam, he can offer the best of the best in mutual funds at a reasonable fee of only 2%. The funds in Mike's portfolio were the who's who of the fund industry. The fund names begin with Vs and Fs. (I'll let you deduce which ones they are.) Now, Mike likes Sam, but something just didn't feel right, and he wants a second opinion.

Carol's primary asset is also her 401(k) at her job of 20 years. She has more than $320,000 in the account. She, too, would like to get a second opinion, especially about the performance of her funds, which she believes have been less than stellar.

As we sat in our initial meeting, I learned that they hadn't updated their life insurance policies or retirement plans since their marriage. They were both aghast to learn that if either of them died, their ex-spouses would receive all of their hard-earned money! (Easy to fix: We contacted the HR departments to request beneficiary forms, and the couple updated the information to designate each other as the primary beneficiary and to include *all* six kids as contingent beneficiaries. A collective sigh of relief could be heard.)

First, we performed an analysis on Mike's IRA. Sam's pitch that he has the best of the best is probably accurate, but only from a marketing standpoint. Upon further examination of Mike's 14 funds, I found that 12 of the portfolios were heavily invested in five stocks. (Interestingly, those stocks are the same ones we have previously discussed: Apple, Microsoft, Alphabet Inc./Google, Amazon, and Facebook.) To say the least, this was shocking to

Mike. He now knows that his funds are actually quite limited, and he can see this “allocation” represents a real and unnecessary risk.

Second, we looked at the fees he was paying. It is true that Sam’s firm charges “only” 2%, but he failed to mention the fees and expenses within each of the separate funds in the portfolio. Thus, on average, Mike’s costs are 0.75% on each fund. Add it up and Mike’s total costs in fees are in excess of 2.75% — not so cheap after all.

Carol’s 401(k) account is with a huge mutual fund company. The problem with this is that the choices within her plan are very limited. While some 401(k) plans have up to 100 funds as investment options, hers only had a total of eight portfolio fund choices from which to choose. She felt frustrated because she was told that the only way to move it was if she left her job and became eligible to enroll in a self-directed IRA.

Mike’s Solution

I explained to Mike that he needed to use my barbell approach to investing rather than the traditional approach of a “balanced” mutual fund. He learned that bond funds were no longer the safe haven he’d thought and that he was taking unnecessary risks on the growth portion (those five stocks we named) of his portfolio. I like the Big Tech growth stocks, but only within an individually managed and diversified equity portfolio.

My recommendation and first course of action for Mike was to move his assets from Sam’s firm’s IRA to another self-directed IRA. Mike felt bad about moving his account from his cousin but realized he needed to do the best for himself and his growing family.

When we received the assets, I allocated the funds. Mike won't be retiring any time soon and has a longer window than many of my clients of his same age. While I may recommend a lopsided barbell approach (75/25 favoring safety investments) to others, in Mike's case, I actually recommended 60/40 (more in growth vehicles and less in safety investments). More specifically, we allocated $240,000 to a diversified growth, individually managed growth portfolio with our private wealth manager and $160,000 in a safe haven — the private pension annuity. The private pension annuity would serve as a bond alternative and remain stable if the markets took a dive. It would continue to earn competitive interest up until Mike's retirement.

Carol's Solution

With Carol, I took a different tack. I had her phone her HR people to ask if she was eligible for an "in-service rollover." She learned that anyone over age 55 and with a minimum of 10 years of employment was eligible to take advantage of this provision, which meant she could do it.

What is an in-service rollover? It allows you to move your 401(k) when still employed to a self-directed IRA and remain eligible in your firm's plan, thus receiving matching contributions and continuing to contribute). Carol was thrilled! Everyone at the firm agreed: The plan was, to say the least, limited in options and the performance pedestrian at best.

She was also enthusiastic about a growth vehicle similar to what we had found for Mike. In fact, she wanted to put 100% of her proceeds into that kind of vehicle. I understood her need for growth but explained that because she's in her 50s, it was wise to place a portion (30%) into a safe vehicle such as a private pension. She agreed.

Shared Solutions

The final piece for this couple's plan was a joint meeting with an attorney. They didn't have one, so I recommended an attorney I have worked with for several years. The attorney came to my office for our next meeting and updated all their wills, health care proxies, and powers of attorney. Everything was then placed in a binder for easy access. We agreed that a quarterly meeting to monitor progress would be beneficial to all.

Putting It All Together

While you probably noticed that I chose client cases to illustrate all four of the financial icebergs I revealed to you in an earlier chapter, I hope you also see that there are many questions a fiduciary needs to ask to get a complete picture of the client's circumstances, goals, financial resources, and financial needs. I will tell you this: I am thrilled you have read my book. But I need you to get additional, customized, personalized advice by sitting with an advisor who has your interests at heart.

Conclusion

I've been doing this work for over three decades now. It's no surprise to you to hear me say that I have seen significant changes in the industry in those years. The biggest change is access to market information; there is unlimited access to market information and market accounts for all individuals. I also note, unfortunately, that there is unlimited access to market disinformation. Additionally, today's consumer has a smorgasbord of products and services to choose from. You no longer need to "pay up" to gain access to the world of Wall Street.

But you know what I don't see among those many changes? I don't see an abundance of wisdom in the financial marketplace today. Despite all the advantages, day in and day out, I sit with people who, if they don't make changes, are in danger of having their retirements compromised or destroyed. **So, are you playing roulette with your retirement? Putting your hopes and dreams on red and spinning the wheel? You need to answer these questions honestly, and if so, you need to navigate a new course TODAY!**

I think the missing piece for a majority of today's investors is a trusted advisor. People are not seeking out and working with a well-chosen, trusted advisor often enough. That is unfortunate; such advisors can impute their experience and knowledge to guide clients effectively through retirement while avoiding the

icebergs.

When looking for an advisor, be aware that you have three categories of financial professionals:

1. **An agent** (who represents one company) — When you sit with an agent, the solution they represent usually consists entirely of their company's products and services.
2. **A broker** (who represents several investment companies) — The broker's solutions are somewhat better in that they can usually recommend a wider range of different products and services.
3. **An independent, fee-based advisor/fiduciary** — A fiduciary is required to act in the best interests of the client, putting the needs of the client ahead of their own (a requirement called the "Fiduciary Standard of Care"). All investment advisors and investment advisor representatives are required to adhere to this standard. A fiduciary has an obligation to disclose all potential conflicts of interests to their clients. An independent fiduciary has access to a wide variety of the financial industry's products and services.

Ultimately, I recommend finding the third type, an independent, fee-based advisor. Such an advisor acts on behalf of their clients and is transparent regarding costs, fees, and expenses. Fiduciaries work for and represent their clients. They have no company sales requirements to meet or policies to sell — no sales manager telling them what to sell to you. An independent, fee-based advisor doesn't push products. They do not act like financial used-car salespeople but are solely goal focused (your goals, not theirs) and take the time to understand your unique financial position. The net result of working with such a professional is an

individualized, customized comprehensive plan that is used as your road map to help you accomplish all your short- and long-term retirement goals.

It has been my mission for well over 30 years to act solely on behalf of my clients to help them accomplish their goals. After reading this book, I hope you get a sense that this is my life's work and passion. I have no plans to retire and am looking forward to helping many more wonderful clients live a rewarding retirement for many years to come.

About the Author

Dan Sullivan has been an investment advisor for over 30 years. He's worked as a vice president of a Fortune 500 brokerage company and was the youngest manager ever for a New York Stock Exchange investment firm. Currently, he's a registered investment advisor and the managing partner of Sullivan Retirement Resources, LLC, with locations in Massachusetts and New Jersey. Dan is also the majority owner of Mass College Funding Alternatives, a consulting firm that has guided hundreds of families through the financial aid process.

He graduated from Clark University in Worcester, Massachusetts, with a bachelor's in economics and studied at the College for Financial Planning and The American College of Financial Services. Dan earned both the CFP® and CLU® designations.

His investment philosophy is one of risk management. The cornerstone to his success is the vigilant recognition that "losses hurt you more than gains help you™."[4] Using this strategy, his clients have invested over $250 million to achieve their retirement goals.

Dan's professional passion is finding creative ways to protect and grow the assets of his clients. He specializes in helping those

4 Scott Brooks, used with permission

who desire safe, stable returns with as little risk as possible. Currently, he is focusing on the potential risk associated with the bond market.

He enjoys the challenge of finding customized solutions to all your financial needs. Whether you are looking to increase your portfolio's returns while decreasing the risk of investing, decrease your tax burden, or just get your financial affairs in order, Sullivan Retirement Resources is uniquely positioned to help you accomplish all your financial goals.

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Dan Sullivan is an investment advisor representative ("IAR") with Sullivan Retirement Resources, LLC. Mr. Sullivan is also a licensed independent insurance agent in the states of Massachusetts, Florida, and New Jersey.

Sullivan Retirement Resources, LLC, is a Massachusetts-registered investment advisor. It is a fee-only investment advisor and does not receive commissions for its advisory services. Its offices are located in Wrentham, Massachusetts, and Princeton-Junction, New Jersey.

In Mr. Sullivan's role as an independent insurance agent, he may receive commission payments from an insurance company when selling their products. Those products may include annuities and life insurance. All commission-based compensation is

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