Andrew Brief Retirement Strategies, Inc.

"Dynamic Planning for Lifelong Relationships"

Brief Notes August 30, 2013

How Should We Define Financial Success?

Defining financial success regarding our investment portfolios might seem somewhat allusive. Most media sources base it on beating the S & P 500 Index returns. To some it's outperforming a "knowledgeable" family member or friend. To others it is simply achieving better returns than one would in a bank savings or CD account. Regardless of one's approach in defining success based on investment returns, the bar is always shifting. It seems logical that most would feel successful if they earned 14% in a year the S & P 500 was up 10%; however, I imagine most would also feel successful if they only broke even in a year the S & P 500 was down 5% or more. Is it appropriate to define success or failure from one year to the next based on relative performance that is clearly unpredictable?

A Goal Based Strategy vs. a Return Based Strategy

Since portfolio returns vary significantly from year to year it makes sense that we should have a different perspective regarding defining success than simply considering investment performance. Not surprisingly, our portfolio strategies are not designed or implemented in a manner that considers beating "benchmark returns" (like the S & P 500 Index) as a meaningful goal. ***We believe***

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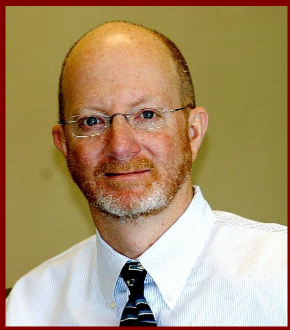

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success should be defined instead on the likelihood that your portfolio will provide sufficient inflation adjusted income over your retirement lifetime while minimizing overall risk.

The consideration of a return based goal is, in many cases, counter-productive to helping you achieve your primary goal of comfortably maintaining your standard of living throughout your retirement. Simply put, if one happens to be trailing the S & P 500, for example (as is the case with our balanced portfolios

Focusng on goals that really matter!

in 2013 thus far), the desire to achieve similar or excess returns could reduce portfolio diversification and increase investment risk significantly (since all portfolio assets would now have to be invested in mainly U.S. large company stocks). Furthermore, focusing on return enhances the likelihood that one will lose focus on more important issues like identifying one's standard of living and ongoing portfolio withdrawal rates.

Maintaining a Goal Based Strategy

This is the approach we take with all of our clients. Although relatively simple in concept, a goal based strategy is not necessarily easy to implement and maintain. A clear and accurate understanding of your current and future standard of living needs and what assets must do to achieve returns commensurate with these needs are imperative. Considerable portfolio diversification is also important to reduce financial and market risk and provide enhanced income distribution options. Maintaining this strategy through both good and bad market environments also poses challenges as market volatility usually increases investor emotional responses and enhances the chances of poor

decision making.

Asset Allocation Can Cloud the Issue

Although diversifying portfolios utilizing many different assets classes can be vital to our long term success, it can also cause confusion when returns are not in line with common market indices. As discussed, 500 large company U.S. stocks comprise the S & P 500 Index. However, this "asset class" (large company U.S. stocks/stock funds) will usually comprise only 20-25% of a well balanced diversified portfolio where many asset classes are represented. This diversified mix of asset classes will likely perform quite differently relative to each over similar market conditions. Clearly, comparing a diversified portfolio to the S & P Index is in many ways comparing an apple to an orange.

Healthy Expectations

If investors have realistic expectations regarding their portfolio returns, the odds of making poor investment decisions should be greatly reduced.

A portfolio comprised of 100% US domestic stocks can certainly be measured against the S & P 500 Index; however, a portfolio comprised of 40% bonds, in my opinion, would provide an inaccurate and misleading comparison. Balanced portfolios containing fixed income investments should underperform this kind of index in good stock market conditions and over perform in poor stock market conditions. Over extended periods, assuming equities outperform bonds (as has been the case over most 10 year periods) diversified portfolios should underperform a stock index with the understanding that the portfolio is taking on significantly less risk than a pure stock portfolio. Portfolio return performance aside, the most important investment goal should be to enhance the

realistic expectations are important!

likelihood of maintaining your standard of living throughout your retirement regardless of market performance.

"By the Numbers"

1. **IT'S A SECRET** - In an effort to encourage US senators **to make recommendations** to the Senate Finance Committee (without **fear of retaliation** from voters) as to **which tax deductions** they would like to see included in any possible tax reform legislation, **all recommendations made** to the committee by a senator will not be released to the public **until 12/31/2064** or more than 51 years from today (source: Congress).

2. **RISK OF RISING RATES**
   - The **average interest rate paid** by the government on its interest bearing debt was 2.435% as of 7/31/13. The average interest rate paid by the government on its interest bearing debt was 4.382% as of 7/31/08 (5 years earlier), equal to 2% **greater than today**. Every 1% increase in the **cost of debt** on our nation's $16.7 trillion debt total is equal to
   $167 billion per year in interest expense (source: Treasury Department)

3. **SELLERS' MARKET** - The average price of an **existing home sold** in the USA has **increased +14%** over the last 12 months (i.e., 7/31/12 to 7/31/13). Home prices have **increased +19%** in the 13-states in the West and **increased** +7% in the 9-states in the Northeast (source: National Association of Realtors).

4. **FEW FOLKS EQUAL BIG BUCKS** - **1% of**
   the US population accounts for 21.8% of all health care expenditures. **5% of the**

population accounts for 49.5% of all health care expenditures. **15% of the population** accounts for no health care expenditures (source: National Institute for Health Care Management).

5. **I'M NOT FEELING WELL** - An average American couple retiring at age 65 today would need **a present value lump sum of $293,000** to cover future **health insurance premiums** and **out-of-pocket medical expenses** over the remainder of their lives, i.e., expenses not paid by Medicare (source: Society of Actuaries).

6. **FEWER** - 70% of retirees surveyed in 2007 (i.e., 6 years ago) were **"very" or "somewhat" confident** that they would have a **"comfortable"** retirement. Only 51% of retirees **feel that way** in 2013 (source: Employee Benefit Research Institute).

7. **LONGER LIFE** - The **life expectancy at birth** of an average American was **62.9 years** in 1940, 5 years after Social Security was created in 1935. Life expectancy is **78.7 years** today (source: Center for Disease Control).

8. **TWINS?** - A child **born in 2012** will cost a **higher-income family** (defined as those making at least $105,000 of before-tax income) **$399,780 in 2012 dollars** (i.e., a present value amount) and **$501,250 in inflation adjusted dollars** over the **first 17 years of the child's life**, i.e., not including college (source: Department of Agriculture).

9. **OLDER AND OLDER** - By the year 2050, 20% of American citizens will be at least age 65. In 1950, only 8% of American citizens were **at least age 65** (source: Congressional Budget Office).

10. **ANOTHER STOCK INDEX** - After last closing **above 3600** on 9/29/00, the NASDAQ Composite did not close above 3600 again

until 7/12/13 or **nearly 13 years later**. The index finished **at 3660** on 8/09/13 Friday. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system (source: BTN Research).

11. **<u>ONE HUNDRED YEARS</u>** - The first **income tax filing year** was 1913. Thus tax year 2012 (i.e., the tax returns that most Americans filed on 4/15/13) was the **100th year** that Americans have **paid federal income tax**. Americans **paid 1% in taxes** on the first $20,000 of taxable income in 1913. Americans are subject to marginal tax rates from **10% to 39.6%** in tax year 2013 (source: Internal Revenue Service).

12. **<u>WORKING FOR THE GOVERNMENT</u>** - 1 out of every 6 American workers is **employed by the government**, either at the **federal, state or local** level. If you **exclude the 7.8 million teachers** in our country from the calculation (teachers are technically employees of their respective local governments), 1 out of every 9 American workers is employed by the government (source: Department of Labor).

13. **<u>BEST AND THE WORST</u>** - The nation's **unemployment rate was 7.4%** as of the end of July 2013. The **highest unemployment rate** in the USA since 1947 was 10.8% in November and December 1982. The **lowest unemployment rate** since 1947 was 2.5% in May and June 1953 (source: Department of Labor).

Best Wishes,

Andrew Brief, ChFC
Rick Nacius, CFP©
Cristina Dziadzio

Andrew Brief Retirement Strategies, Inc.