Retirement Planning Quarterly

November 2010

A financial planning publication sponsored by Emerald Retirement Planning Group, Inc.

THE BIG NEWS

Something New

We're trying something new at Emerald Retirement Planning Group, and it's ***this newsletter***. We had previously published a newsletter from 2004 to 2006, but stopped doing so because of the time commitment of writing, printing, and distributing it. So why take up the cause again?

The answer is, at least in part, because the volume and frequency of ***bad*** information (defined as anything that is incorrect, inappropriate, or irrelevant) has actually *increased* in the last several years, and we now find the need to once again defend what we know to be the fundamental principles which govern the success (or failure) of individuals and families as it regards long-term financial and retirement planning.

If you'll allow a structural overview of our intent, it is to provide one primary article, along with two shorter writings, in each issue. When appropriate, a supporting article by an outside author will accompany the newsletter, a fact which will be referenced somewhere within the newsletter. *The Big News* will refer to the primary article, and will often be current-events related, albeit with a longer-term frame of reference than is typical in 'headlines.' The *Commentary* section will most often be as the name suggests; a comment on some topic or other which we feel warrants retort. *Closing Note*, finally, will be our attempt to bestow a bit of insight, knowledge, or perspective on any number of topics of importance for those who we serve; namely, those who are dealing with the issue of preparing for, or living within, a period where passive income is responsible for the lion's share of living expenses, a.k.a. 'retirement.'

We will, of course, modify this structure at our discretion, but rest assured it will be for purposes of improvement.

As for frequency, we will be using "quarterly"

COMMENTARY

A cup of coffee, and a second opinion

People occasionally ask, "What do you talk about in your first meeting with someone?" Some expect 'chit-chat' (which I've never been accused of being any good at), while others expect I'll carefully comb through dozens of documents looking for "problems." But actually, the first meeting is this: (1) The *beginning* of an ongoing dialogue on the fundamental issues which affect long-term planning and lifestyle; (2) A first look at where and how I may be able to add value. A postcard I used a few years back stated it this way:

What we offer: ***A cup of coffee, and a second opinion***. By appointment, we'll arrange a time that works for you. Casually but responsively, I'll answer every question you have. I'll also ask you to outline your lifestyle and legacy goals, which are the foundation for planning. If you already have a written plan, we can review that as well. With a focus on the fundamentals, if I come to believe that your current planning strategies are well-suited to your long-term goals, I'll gladly tell you so, and send you on your way. If, on the other hand, I determine that some aspect of your strategy does not match your goals, I'll explain why, in plain English. And if you like, we'll agree to meet again soon to discuss my process as it relates to you and your family. Either way, the coffee is on me.

Something New (continued)

rather loosely, in that we intend for the publication to appear *at least* quarterly, but at times it may show up as often as monthly. Having learned from past publishing deadlines, it's better to exceed expectations than over-commit and fall short. That said, expect to hear from us (in this particular format) at least four times a year, but more likely closer to six.

So other than the launch of this project, what's the *Big News* for November 2010? We would have to say it was the massive shift in Federal and State Congressional Seats, along with the election of a substantial number of new, mostly Republican, Governors; followed the very next day by one of the most overt, if not overreaching, decisions of the Federal Reserve since its inception in 1913. Whether either event impacts our lives will be known only in hindsight, as with *anything* which has so many variables, stakeholders, and potential consequences. We encourage our clients to focus most on those issues with which they have *direct* control. Is a response in *planning* required because of x, y, or z? If so, why? We have opinions on November's events, and you may too. Provided you keep them in the proper context of political philosophy, you'll be just fine.

CLOSING NOTE

Life in These United States

The drive from Tulatip, WA to Troy, NY, were you to pass through Tulare, Tucson, Tulsa, Tuscaloosa, Tampa, and Trenton on your way, would take roughly 75 hours and 5,200 miles. I don't wager anyone's ever made that trip, but you *could*. More importantly, it puts my next bit of news in the proper perspective.

I recently moved to River Edge, NJ, which is in Bergen County -- just east of Paramus and just north of Hackensack. This move confused a few people who thought I might be less available to them. So let me clear up any confusion: I *continue* to work with over thirty families in Rockland, Westchester, NYC, and Long Island. I *also* work with many families who, because of relocation, now live elsewhere in this great nation. And that's OK; I love all my clients, *wherever* they may live. By the way, this holds true for *new* clients as well, so please continue to introduce me to your friends, family, and coworkers--anyone who may benefit from long-term planning--wherever *they* may live.

For one of many things you might suggest to them, please see "A cup of coffee…" on the front.

About the Author

Matthew Clement is President of Emerald Retirement Planning Group, a financial advisory firm. He works with individuals and families throughout NJ, NY, and other states.

He is creator of several proprietary retirement income and cash management programs and has over seven years experience in the areas of retirement planning and behavioral advising.

Matthew is a founding member of the Association for Integrative Financial and Life Planning. He has been a keynote speaker and guest lecturer, and has hosted a radio program on the fundamentals of retirement planning. He holds degrees in business and financial planning from Fordham University. He may be reached by phone (below) or matthew@emeraldretirement.com.

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ADDENDUM

15 Years of Optimism Rewarded

At the time the first two pages of this newsletter were printed, the enclosed article by Nick Murray *had not yet been written*. Wishing for this article to be in your hands by year's end, I have added this third page addendum, which will allow me space both to comment on his article and to bring your attention to some other information.

First, a word about "The Year of Pessimism...". Mr. Murray makes five assertions, which I paraphrase:

1. The US stock market stands now at about the same level it did *before* the hearty 40% decline which took place from 9/19/2008 through 11/20/2008.
2. Those who maintained their investments during this period are thus about where they were in September 2008, or more likely, *better* than where they were then - the natural result of dividends, additional purchases, and rebalancing. Those who panicked out of their investments around that time, however, are in all likelihood well behind, and may always remain so.
3. Those who maintained their investments did not do so because they knew more about what was happening in the economy and the markets, but because they were able to maintain faith in the fundamental principles of market capitalism, or as Murray puts it, "faith that the world wasn't ending."
4. Those who stayed the course were just as angry at the banking, credit, and mortgage mess as everyone else, and they were equally concerned about the short-term implications of an economic slowdown. Angry and concerned, they merely chose a *different response* because they understood that, in time, things would improve.
5. These angry yet faithful investors *further* understood that once those improvements became *evident*, prices would already be higher. As such, their response was to *feel* the fear of the moment, to acknowledge it for what it was (a natural human emotion), and then to ***not give in to it***. Discipline of this kind has faith and patience as *prerequisites*, which is why so few are able to pull it off, but for those who exhibit such discipline, the reward of future growth and earnings is theirs alone. *[The assistance of a compassionate yet resolute financial planner is, I might add, one additional path toward consistent, long-term discipline… or so I've heard.]*

Next, let's take a broader look at this article's implications, which I'll call "15 Years of Optimism Rewarded":

- One possible 'objection' to Murray's piece might be stated this way: "So what if the S&P is back to 1200 where it was in September 2008? It was up as high as 1500, both in October 2007 and as far back as July 2000. Had I invested *then*, I'd *still* be under water."
- My response: Yes, I suppose if you had invested 100% of your money (which I assume you were previously holding as cash?) into the market at around the top of either of our last two cycles, you'd still be under water. But that's not what disciplined people did. Instead, they invested systematically, *over time*, accumulating equity in small amounts along the way. The result? The aggregate of what they now own represents shares purchased at *various periods* - both high and low - with the *average cost* of those purchases much lower than any top-of-the-market scenario. Moreover, the disciplined person would have diversified and rebalanced as necessary to maintain an appropriate mix of holdings, both of which work to improve results through time.
- So how do we know this? As just one scenario, had you invested $10,000 in January 1996 (already well into the extended bull market that peaked in 2000, hence an "average" time to begin a hypothetical examination) into a globally diversified portfolio of common mutual funds*, and then invested $500 per month for 15 years, you would have saved/invested a total of $100,000 (known as 'net amount invested'). The *value* of that portfolio today, net of fund fees, net of advisory fees, and even net of taxes, would be worth about $165,000, which is equal to well over 5% annualized returns.

  Please see** http://www.emeraldretirement.com/archives/1996portfolio.pdf **for details/disclosures of this example.
- Surely there are fifteen year periods where you would have fared better - many, in fact. And that's precisely the point. Even during a fifteen year period which includes two of the largest and longest "bear market" corrections of the modern world, you would have more than kept up with increasing costs of living (by about double), and would today be holding $165,000 in preparation for what may turn out to be a period of substantial (and always unexpected) economic growth.
- So if a reflection on the year 2010 doesn't suit you, reflect on the last fifteen... and then consider your plans for the *next* fifteen.

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