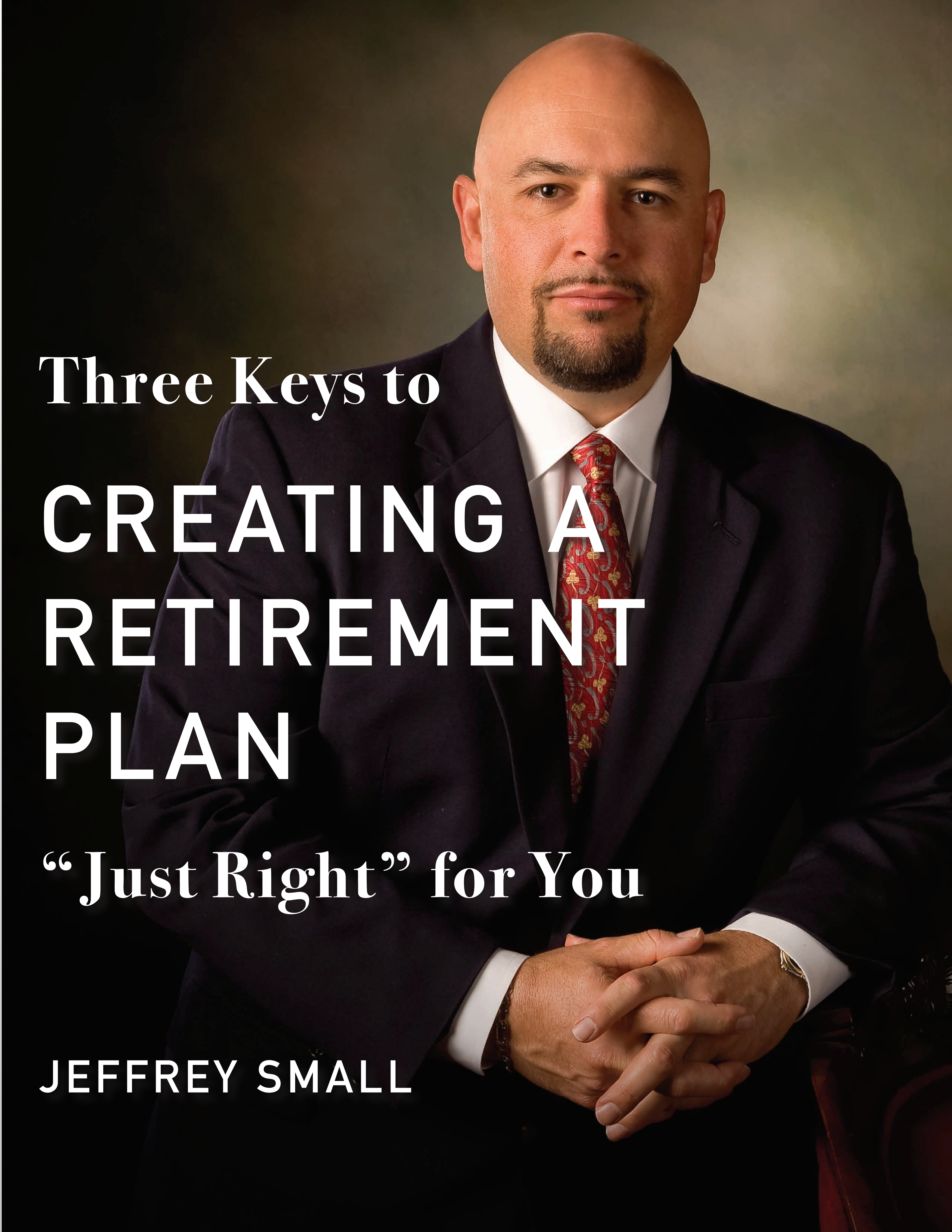

Three Keys to CREATING A RETIREMENT PLAN “Just Right” for You

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The fairytale *Goldilocks and the Three Bears* tells the story of a little girl who is on a quest for things that are "just right." Baby Boomers saving for retirement should consider themselves on a similar quest. The cookie-cutter savings and investment strategies favored by many brokerage firms and financial advisors aren't likely to help you in that quest because they're based more on market trends and textbook concepts than on you and your individual situation. In other words, a retirement plan that might be right for your neighbor might be completely wrong and counterproductive for you—just like Papa Bear's bed and chair were right for Papa Bear but wrong for Goldilocks.

What exactly does "just right" mean when it comes to a retirement plan? While it's true that no single plan is just right for everyone, there are some common denominators that every person should think about in his or her quest for a "just-right" retirement plan. For the purposes of this paper, we're going to boil those common denominators down to three key areas and discuss each one: goals, risk, and return. In short, by addressing the first item, you improve your odds of having a financial plan in which the other two are in the "Goldilocks Zone"—meaning just right.

Goals

It's surprising how many people reach retirement age without ever having specifically identified their goals for retirement. Some may believe that their goals don't need to be identified because they're basically self-evident: to have enough money saved up to live comfortably without having to go back to work. While that's a good starting point, it's important to get much more specific when it comes to retirement goals. The more detailed your goals are, the more detailed your retirement strategy is likely to be.

Here's a timely analogy that illustrates the benefit of identifying your specific retirement goals: GPS. How many of us travel to any destination for the first time nowadays without punching the exact address into our phone's GPS app first and letting a voice guide us there turn by turn? Think of identifying your retirement goals in the same way. Pinpoint exactly where you're starting from and exactly where you want to go, and you will greatly increase your odds of creating a financial strategy that gets you there.

Now, retirement goals are similar for many people. Yes, there are some folks who want to buy a boat or a second home or invest in starting their own new business. But, for most people, retirement goals are simpler. They want to have enough money to maintain the lifestyle they're accustomed to, pursue their hobbies and interests, travel, and spend time with their children and grandchildren. If you think your own goals might be similar to those, then the next step in creating a financial strategy that is "just right" for you may lie in answering this question: how would you like to pay for those goals once you've retired? Would you prefer to draw money from a lump-sum account, sell parts of your assets, or pay through your regular income stream?

The answer that makes sense to most people, of course, is payment through a regular income stream. Now, if your goal was to buy that yacht or a second home, your answer might be different; it might be one of the other two options. But, if your goals are more lifestyle-based than major-purchase based, you'll probably agree it makes the most sense to be able to pay for them through your income stream. If so, congratulations, because you've just taken the first important step toward creating a retirement plan that is "just right" for you!

Risk

Obviously, no investment strategy is entirely without risk. But, it's also true that some strategies are riskier than others and that the level of risk you can reasonably afford to take changes over time. Incurring a major financial loss in your 30s and 40s would be unfortunate, but it's less likely to be devastating because you still have time to recoup those losses and build up your assets again before you retire. But, as you get closer to retirement, you lose the luxury of time, and incurring a major loss could not only put your goals at risk but force you to delay your retirement altogether.

While people have different risk tolerance levels (some naturally more aggressive and others naturally more conservative), a common denominator for creating a "just-right" retirement strategy involves making sure you aren't carrying unnecessary financial risk after about age 50. In other words, within 10 to 15 years of retirement, you should start focusing on "financial defense" and protecting the assets you've already attained. This may sound like a "no-brainer," but it's surprising how many people cling to financial strategies so heavily focused on "offense" (meaning portfolio growth) that they potentially jeopardize what little defense they do have. One reason for this is that people fail to recognize the full magnitude of a major loss in the stock market. The reality is that if your portfolio loses 50 percent of its value during a market downturn, you need to earn back 100 percent just to break even. While you may think that a 50 percent loss sounds extreme, remember that it has actually happened to investors twice so far since the turn of the century: from 2000 to 2003 and from 2007 to 2009.

The other thing to bear in mind about financial defense is that it's an ongoing issue, meaning you can't just implement defensive strategies and assume they will continue to meet your needs. They should be reassessed frequently and possibly readjusted. Think of retirement as a football game: when one team has a comfortable lead late in the game, the last thing they want to do is neglect defense or not make defensive adjustments. At best, they might still win, but it will have been with a lot more work and stress than if they had played a smarter defensive game. At worst, they might end up blowing their entire lead and lose the game.

The good news is that a growing number of Americans in the current generation of retirees and near-retirees—meaning Baby Boomers—understands the importance of financial defense. After all, they've lived through those two major stock market crashes mentioned above *in addition* to the greatest financial crisis in this country since the Great Depression. They understand we're living in an age of unprecedented uncertainty where the global financial markets are concerned. They know it's probably not in their best interest to blindly follow a broker or financial advisor whose business model leans heavily on mutual funds and other strategies tied to a stock market detached from economic fundamentals and ever at risk of another major correction.

Unfortunately, the bad news is that many of these same enlightened investors continue to follow these outdated, risky strategies because they've been led to believe it is their only option for achieving a reasonable return. They have an obstacle on their path toward achieving a "just-right" retirement plan because they believe the common misconception that one *can't* reduce risk without sacrificing growth/return. So, let's clear up that misconception right now.

Return

The misconception basically stems from the fact that many people use the terms "return" and "growth" synonymously, when, in fact, they are separate things—related, yes, but separate. A good way to understand this is to think of the following formula: TR=I+G. That stands for "total return equals income plus growth." To expand on that, it's important to understand that the "income" portion of total return comes in the form of interest and dividends, while growth is measured in capital appreciation.

Many people are led to believe that in order to increase returns, you must focus on increasing growth and that the best way to do that is through traditional "buy-and-hold" investing in the stock market. Thus, many people have the idea that increased retirement income requires increased risk. But, if you apply the TR=I+G formula and examine it more closely, you realize that just the opposite is true.

First, it's essential to remember that growth can quickly turn to shrinkage or loss when the stock market suffers a major downturn, which—as we've noted—has happened twice so far since 2000. Since return is a product of both growth *and* income, you have the option of shifting your strategic focus from one to the other in your pursuit of return. If you make that shift, three things can happen relative to the three key factors we're discussing:

1. You can align your financial strategy with your **goals**—if those goals are more lifestyle-based than major-purchase-based, as we discussed.

2. You can dramatically *lower* your **risk** because when you invest specifically for income instead of growth, you're typically investing in vehicles designed to significantly reduce volatility.

3. You can continue achieving a comparable, competitive level of **return**.

Believe it or not, that last factor is actually proven by today's record-high stock market. As of this writing, the stock market has soared by over 20 percent since Donald Trump's election and gone up by over 60 percent since 2000. That may sound impressive, but what does it actually mean in terms of *return* for those investors who have hung in there through those two major drops and are still committed to the market? Well, that 60 percent equates to a little less than a 3 percent average return since the turn of the century and about 5 percent with dividends factored in. While it may be true that the stock market averages an 8 to 10 percent return over the very, very long run, it's also true that major drops like those we've experienced can significantly undermine that average during a long-term secular bear market cycle, such as the one we're in right now.

Now, how does that 5 percent average return for growth-based investors compare to the return achieved by income-focused investors during that same period? Well, many income-based investors whose portfolios have been properly managed have achieved close to 5 percent income and *greater* than a 5 percent total return! More importantly, they've done it with far less risk of a major loss during those two major drops and without the continued risk of a third major stock market drop.

While increasing your portfolio growth may require increasing your risk, increasing your income—if that's your goal, which it probably should be after age 50—ideally calls for *reducing* your risk and focusing on strategies specifically designed for protection and income!

Mom & Dad Were Right!

There's an old saying that investing is simple, not easy. In seeking a retirement strategy in the "Goldilocks Zone," meaning "just right" for you, it's a good idea to keep in mind a simple bit of advice your parents may have given you when you opened your first bank account: spend your interest, but don't touch your principle. That advice is smarter and more relevant than ever in today's uncertain economic environment.

That's why it isn't just Baby Boomers who are changing the way they think about investing for retirement; it's also a significant portion of the financial services industry. More and more financial planners are shifting away from the old nest-egg approach to a more holistic approach—an approach in which the goal isn't about building and continually re-building a risky mountain of cash you chip away at. Instead, it's about creating a steady stream from a reliable, protected source: an income stream produced by a financial strategy "just right" for achieving your personal retirement goals!

Is your financial advisor helping you create a retirement plan "just right" for you, or are they married to an outdated one-size-fits-all Wall Street business model? If you aren't sure, find out. Don't be content to leave your hard-earned money in the hands of someone who may not be helping to ensure that you'll achieve your retirement goals—or who may, in fact, be jeopardizing them.

Contact ARBOR Financial today for a FREE consultation.

Jeff Small
Financial Advisor

R. Jeffrey Small, President of ARBOR Financial and author of *Turning Financial Planning Right-Side Up*, teaches retirees the art of financial self-defense.

Having presented over five hundred public seminars educating the local retirement and pre-retirement community on a range of monetary issues, Mr. R. Jeffrey Small, grew up in Brevard County and has been working with retirees and their families for almost 30 years. ARBOR, which stands for Assisting Retirees Beyond Ordinary Results, is not just an appropriate acronym for his rising firm but rather an economic philosophy based on years of industry and market experience. Jeffrey is dedicated to providing his clients and the public with an array of diverse financial products and services. He is a Certified Senior Advisor through the Society of Certified Senior Advisors, an Investment Advisor Representative with Sound Income Strategies, LLC, and is licensed with the Florida Department of Financial Services.

In his first years in the business, Jeff recognized the unfortunate reality that most of his retired clients were jeopardizing their financial futures simply because they lacked basic economic industry knowledge. Jeff made it his goal to ensure ARBOR Financial provided free financial knowledge and information that was vital to hard-working Americans who wanted to know how best to save for retirement in an ever-changing and sometimes hostile economic landscape. This counter-cultural attitude set him apart from his local competitors. To this day, Jeffrey advocates his approach as a best practice that allows him and his firm to give back to the local community.

"We at ARBOR do not follow the mainstream financial mantras of the typical "Wall Street Cheerleaders." Rather, we believe strongly that lives are changed dramatically for the better through proper financial self-defense planning both before and into retirement." —R. Jeffrey Small