

# Some Concluding Thoughts for the Younger Group

**Start Early and Be Disciplined during Accumulation**  
**The Magic of Time**  
**The Concept of Rebalancing your Portfolio**  
**The Need and Value of a Will**  
**What to look for in a Financial Advisor**

# Some Emailed Questions from the Class

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- Proposed Changes to the URS Retirement System
- Could you review the ladder concept again?
- What kind of investments should each ladder segment contain?
- What are the needs and uses of a Will?
- How do inheritance laws affect investment decisions of Senior?
  - Current Status of the Federal Estate Tax
- When are Trusts Useful?
- What should we look for in an financial advisor?

# Trends in Retirement Pension Plans

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- “Since the early 1980’s the number of workers covered by pension plans has steadily declined. Since the year 2000 this trend has become more pronounced, calling into question the over all future of pension plans.
  - Source: Standard & Poors: December 2005
- “Employees of large companies are getting a wake-up call from corporate America: It’s time you learn to take care of yourself.”
  - Source: Wall Street Journal: Feb. 8, 2006

# The Accumulation Period

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- The Importance of Starting NOW!
- Person A saves \$1000 per year for 8 years beginning at age 25 – then nothing thereafter. The average growth rate is 9% annually. What will they have at age 65?
- At age 65 account value is **\$206,546**
- Person B Saves nothing the first 8 years, but \$1000 per year for the next 33 years. Same 9% return – what will the have?
- The account value is **\$195,982** at age 65.

# Compounding: “The Magic of Time”

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- Future Value of a single \$1 invested today.
- Future Value of a \$1 annual annuity.
- The Roth IRA vs. The Traditional IRA.
- An Example:
  - Suppose a 30 year-old saves \$250/month for 37 years until age 67
  - What is the total accumulation?
  - What can be taken out each month for the next 30 years?

# Asset Allocation during Accumulation

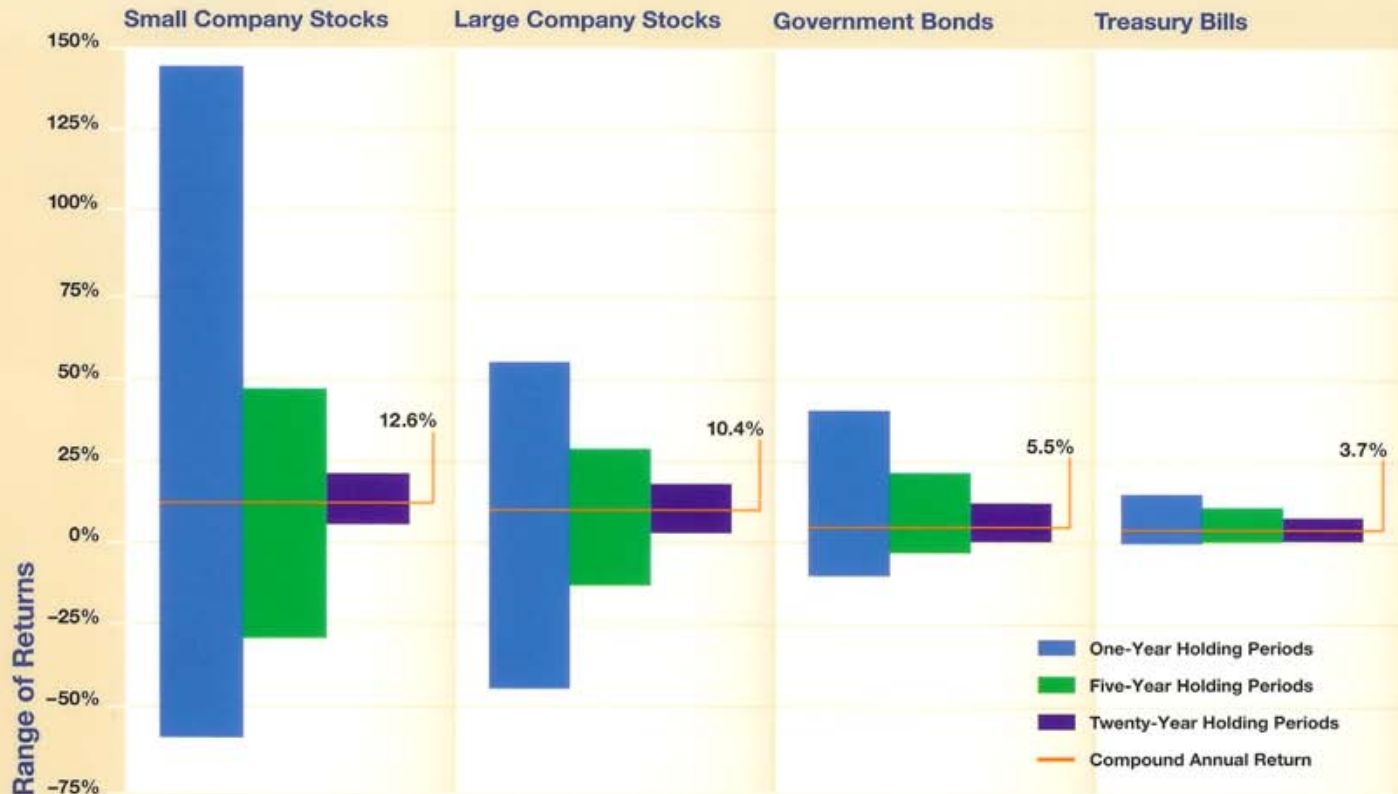
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## ■ Asset Class Return Information from 1926 to 2005

■ Large Cap Stocks	10.4%
■ Small Cap Stocks	12.6%
■ Long-Term Corporate Bonds	5.9%
■ Long-Term Treasury Bonds	5.5%
■ US Treasury Bills	3.7%
■ Inflation	3.0%

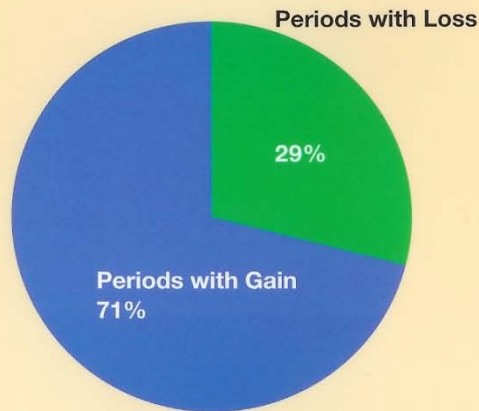
# Remember: Time Reduces Risk

Reduction of Risk over Time  
1926–2005

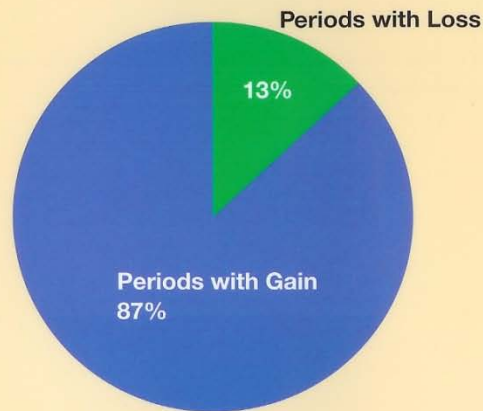


# The Argument for Equity

## Risk of Stock Market Loss over Time 1926–2005



80 One-Year Periods



76 Five-Year Periods



66 Fifteen-Year Periods

# Asset Accumulation Summary

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- Note that risk in the equity markets is significantly reduced as investment horizons get longer.
- Thus, during the accumulation period, equity investments will generally accumulate to higher balances.
- In fact, some equity investments seem to actually lower risk and raise return as compared to 100% fixed income portfolios.

# Conclusions on Fund Expenses

- Expenses of Mutual Funds Vary Greatly
- Sales Charges are only part of the story
- Let's take a "Low Cost" Fund Example
  - TIAA-CREF Growth Equity Fund
  - No Front or Back Loads
  - No 12b-1 Fee
  - Annual Expense Ratio .45%
  - Turnover = 78%
  - Annual fund expense including Trading Costs = 1.42%
- Average Mutual Fund Expense for the Industry is 1.84%
- Vanguard leads the way in low-cost mutual fund offerings
- Mutual Funds are generally more expensive to hold than many investors realize.

# Summary of Fixed and Variable Annuities

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- Fixed Annuities invest in Fixed Income assets
- Variable annuities generally invest in Equity assets
- Investments referred to as Subaccounts
- Issued by Insurance Companies
- Embedded Death Benefit Options
- Provides for Annuitization – but not required
- Maintains complete investment flexibility
- Riders provide for management of market and longevity risk.
  - Income Guarantees
  - Withdrawal Guarantees

# The Need for a Current Will

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- Three Primary Important Considerations
- Guardianship of Minor or Special Needs Children
- Naming of an Executor
- Disposition of Assets in ways you desire
- The Advantage of Assets with Named Beneficiaries
- The Probate Process
  - Estate becomes public information
- The Advantages of a Trust

# Let's Take a Look at the Laddering Concept Again

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- Remember the Goal:
  - Short-term stability – Long-term growth
- Examine the Worst-Case Scenario
- Discuss the flexibility between ladders
- Remember, this is only one strategy – it may not be the best for your situation.
  - Depends on your ultimate goals and desires.
- What About Investments in each Ladder?

# What to Look for in a Financial Advisor

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- Are they appropriately and sufficiently licensed?
- How is he/she compensated for services?
- Are they knowledgeable about investment products, markets, and strategies?
- Do they understand your particular circumstances, goals, resources, and desires? Will they listen?
- Will they service your account regularly?
- Do they provide timely information when requested?
- Will they work with a team – attorneys, accountants, executors, etc.
- Are they impeccably honest – do you Trust them?