Financial Focus

SPECIALIZING IN WEALTH MANAGEMENT AND RETIREMENT INCOME PLANNING

ANDY DRIGGERS, **Financial Advisor** June 2014

Notable Quote

"Go to the mouse you foolish investor and learn. A mouse never entrusts its life to only one hole." – Ajaero Tony Martins

How Impatience Hurts Retirement Saving

Why do so many retirement savers underperform the market? From 1993-2012, the S&P 500 achieved a (compound) annual return of 8.2%. Across the same period, the average investor in U.S. stock funds got only a 4.3% return. What accounts for the difference?[1,2]

One big factor is impatience. It is expressed in emotional investment decisions. Too many people trade themselves into mediocrity – they react to the headlines of the moment, buy high and sell low. Dalbar, the noted investing research firm, estimates this accounts for 2.0% of the above-mentioned 3.9% difference. (It attributes another 1.3% of the gap to mutual fund operating costs and the remaining 0.6% to portfolio turnover within funds.)[2]

Impatience encourages market timing. Some investors consider "buy and hold" passé, but it has certainly worked well since 2009. How did market timing work in comparison? Citing Investment Company Institute calculations of equity fund asset inflows and outflows from January 2007 to August 2012, *U.S. News & World Report* notes that it didn't work very well. During that stretch, mutual fund investors either sold market declines or bought after market ascents 57.4% of the time. In addition, while the total return of the S&P 500 (i.e., including dividends) was -0.13% in this time frame, equity mutual fund investors lost 35.8% (adjusted for dividends). [3]

Most of us don't "buy and hold" for very long. Dalbar's latest report notes that the average equity fund investor owned his or her shares for 3.3 years during 1993-2012. Investors in balanced funds (a mix of stocks and bonds), held on a bit longer, an average of about 4.5 years. They didn't come out any better – the report notes that while the Barclays Aggregate Bond Index notched a 6.3% annual return over the 20-year period studied, the average balanced fund investor's annual return was only 2.3% .[2]

What's the takeaway here for retirement savers? This amounts to a decent argument for dollar cost averaging – the slow and steady investment method by which you buy shares over time, a little at a time. When the market sinks, you are buying more shares as they have become cheaper – meaning you will own more shares when they regain value.

It also shows you the value of thinking long-term. When you save for retirement, you are saving with a time horizon in mind. A distant horizon. Consistent saving from a (relatively) early age and the power of compounding can potentially have much greater effect on the outcome of your retirement savings effort than investment selection.

Keep your eyes on your long-term retirement planning objectives, not the short-term volatility highlighted in the headlines of the moment.

1 - finance.yahoo.com/news/p-fund-tops-p-500-142700129.html [5/3/13]

2 - marketwatch.com/story/7-reasons-why-retirement-savers-fail-2013-06-26 [6/26/13]

3 - money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/2012/11/05/herd-behavior-hurts-fund-investors [11/5/12]

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Long-Term Care Insurance

I realize LTC is continually brought up in my newsletters but it's becoming increasingly important to understand and for you to be informed whether or not this is coverage you should consider.

Your chances of living a long life is increasing these days (with advances in medicine, technology, diet and exercise) and planning for it has become a necessity. In continuing our retirement planning discussions, we also need to address that you have a solid strategy to deal with an extended healthcare event in your retirement years. The cost of this type care can significantly impact the planning we're doing.

Did you know:

- 70% of those over age 65 will require some type of long term care? [1]
- Today, the national average of 1 year in a nursing facility is over $94,000? [2]
- In 30 years the cost for 3 years of long-term care is a projected average of $750,000? [3]

Long-term care insurance can be a valuable extension of your financial and retirement strategy. With a bit of foresight, you can help protect your savings against the potential risk of long-term care expenses so that you can enjoy the retirement you have planned.

Please contact me if you would like to explore long-term care planning options and whether or not this is something you should consider. We can also run a free, no obligation quote to ascertain if coverage would be available to you as well as the costs.

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1 U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, www.longtermcare.gov, November 2012.
2 John Hancock 2013 Cost of Care Survey, conducted by LifePlans, Inc.
3 Genworth 2013 Cost of Care Survey, conducted by CareScout.

A Looming Crisis?

The first article in this newsletter discusses keeping a long-term view and not making emotional decisions. I'd like to add a well balanced portfolio as well. That said, my concern is growing in regards to the amount of debt the US has accumulated and more so the ability to repay it. The perception from many owners of US debt and our ability to repay could possibly be jeopardized.

Since President Nixon went off the gold standard and there is no longer a commodity backing the dollar, we are in a sense making promises about our ability to repay our debt based on our "good" word.

Re our federal deficit (different from federal debt), Fed chairwoman, Janet Yellen, on 5/7/2014 said that under current policies the federal government's deficits "will rise to unsustainable levels." To my recollection we've not run at a surplus since Clinton was president.

My hope is that confidence in the American dollar will continue and not be devalued. Eventually interest rates will probably rise (which could slow the economy) – policymakers are already discussing this in *hopes* of controlling inflation.

What does all this mean? If you talk to ten economists you may get ten different answers. Not the answer you're looking for but I don't think anyone knows for sure – we've never been down this road. I'm no economist and am not trying to create fear but the US, in my opinion, has some unwinding to do that won't be easy.

As I write this, the Dow is near an all time high. For those of you above 40 years old or so and holding a large exposure to equities (stocks), I recommend we take some profits and move a portion of equities to a more defensive strategy. I'm not recommending moving completely out of equities but do think it wise to be more cautious. There are other factors involved that lead me to be more cautious and I'd be happy to discuss them anytime.

Biblically Responsible Investing

Biblically Responsible Investing (BRI) is an area most are not familiar with but I hope you'll take a moment to visit my new website which explains it in further detail and why I believe it's important. As always, please contact me if you have any questions. The website is: www.ValuesWealthMgt.com.