

## HOW DO I DEAL WITH THE SUBSTANTIAL REDUCTION IN MY RETIREMENT SAVINGS?

The difficult economic, financial, and investment climates have been bad enough, and now we are faced with a noisy chorus of comments, criticisms, and opinions from all corners – TV, internet, radio, newspapers, magazines, books, government officials, financial experts, friends, and family members.

Even worse, these comments, criticisms, and opinions about investing and saving for retirement are diverse from “throw in the towel, sell all of your investments, and hide your money under your mattress” to “stay the course” to “invest aggressively now because prices are so low” and everything in between.

In good times, inflated expectations came from financial marketers who preyed on greed. In these difficult times, there are financial cynics who prey on fear. Investment decisions should not be clouded by this greed-and-fear cycle. Moderation can overcome greed and it can also overcome fear. Blocking out the negative noise and market skeptics is the challenge that we all face now.

Who is right? What should I do? Information overload! It’s distracting and downright confusing. **You should try to focus on the most important things – you and your personal situation.**

You have much in common with everyone and there are many things and actions which apply to all of us. So the first step toward focusing on you and your personal situation is recognizing and understanding the common ground we all share. Remember, the title of this article is “How do I deal with the substantial reduction in my retirement savings?”

The title itself is scary, stressful, and depressing – enough to make you sick. You have to protect and nurture your health, your emotions, and your family before you can get back on the road to financial and retirement security. This is a remedy for fear in the greed-and-fear cycle.

Credit was abundant and easy to obtain, but now credit is scarce and difficult to obtain. Credit conditions will loosen up eventually, but what then? Retaining the frugality and common sense you learned during the difficult times will help you keep your current living expenses under control so that you will need less retirement income to live comfortably. Do you really need another expensive flat screen TV on the wall just because you can buy it with a credit card? **Today’s spending habits affect tomorrow’s retirement.** This is a remedy for greed in the greed-and-fear cycle.

If you were planning on retiring in 5 or fewer years, delay your desired retirement age by a couple of years so that you will have more time to rebuild your retirement savings. If you are already retired and your health remains good, try working part-time again to supplement your retirement income. This is a change from your original retirement goal(s), but you are in control, and it is another remedy for fear in the greed-and-fear cycle.

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If your time horizon for retirement is several more years, maintaining a more moderate and frugal lifestyle, especially when economic, financial, and investment climates rebound, will free up more money for your retirement savings to recoup the losses that you incurred. **Now is the right time to start saving for retirement.** This is a remedy for both greed and fear in the greed-and-fear cycle. Our website includes a Retirement Savings Calculator to help you with the question “How much will I need to save for retirement?” This returns the focus to you and your personal situation.

The substantial reduction in your retirement savings may have been more or less than the losses of other people. Either way, it was a setback for you and your retirement security. History has proven over and over that economic, financial, and investment conditions will improve eventually and, perhaps, substantially. But when, by how much, and for how long? What are your expectations? If your investment losses were very steep, it is likely that you succumbed to greed in the greed-and-fear cycle. **There is no free lunch when investing for retirement.** If you want more investment returns, you will have to take more investment risks. Reduced investment return expectations and reduced investment risks are important remedies for greed in the greed-and-fear cycle.

We all know that we need adequate retirement savings to live comfortably in our retirement years, but you may need more for retirement than you think for one very important reason – inflation. With just 3% annual inflation (increase in costs of goods and services), 10 years from now you will need \$135 to have the same buying power as \$100 today. 30 years from now, you will need \$245 to have the same buying power as \$100 today.

**The most important goal when investing your retirement savings is for your investment returns to beat inflation by a comfortable margin.** This is a balancing act and everyone has their own sense of balance. You may be able to increase your investment returns if you take more investment risks, but as we have all learned the hard way, you can also lose money with riskier investments. You need to deal with inflation, but you have to be comfortable with the investment risks you are willing to take. Our website includes an Asset Allocation Calculator to help you with the question “How should I allocate my assets?” This also returns the focus to you and your personal situation.

The next page is a short article called “Investment Risk Assessment – It Makes A Difference.” Some of the information is technical, but lower risk investments within the same investment categories tend to do better (often much better) in down markets.

**These calculators and the separate article are intended to help you set your own reasonable and moderate investment return and investment risk boundaries as remedies for greed and fear in the greed-and-fear cycle.** You have already overcome some of the obvious fear in this cycle just by taking the time to read this article. The less obvious, but greater fear is whether you will succumb to greed in good times.

NOTE: This article and its contents cannot and should not be treated as investment advice or used to make investment decisions. If needed, you should seek the help of a qualified financial professional.

## INVESTMENT RISK ASSESSMENT – IT MAKES A DIFFERENCE

Current adverse market conditions have challenged the academic principles of Modern Portfolio Theory as being out of date and no longer relevant. The replacement candidates are “nothing works” or the belief that market movements are just random events.

The chart below shows that abandoning these sound academic principles may not be prudent. Investment risk assessment or analysis does make a difference. As shown, U.S. stock mutual funds with high risk characteristics dropped an average of 45% in value during 2008, while U.S. stock mutual funds with low risk characteristics dropped an average of 29% in value during 2008.

No one wants their investments to lose 29% of their value, and those same investments must then have a 41% increase in value in the future just to get back to even. However, a 45% loss in value takes an 82% increase in value in the future just to get back to even. That is a BIG difference.

Thus, investment risk assessment is still an important tool, and seeking the help of qualified financial professionals to understand and assess investment risk is appropriate.

Risk Measure for Mutual Fund Category (B)	Composite Returns for 2008 (A)			
	U.S. Stock Mutual Funds	Foreign Stock Mutual Funds	Balanced Mutual Funds	Taxable Bond Mutual Funds
High Risk	-45%	-52%	-36%	-21%
Average Risk	-37%	-45%	-29%	-8%
Low Risk	-29%	-39%	-17%	-3%

(A) Composite returns were obtained from Morningstar, Inc. Information shown is believed to be reliable, but accuracy is not guaranteed.

(B) Risk measures are trailing 3-year Morningstar risk scores based on Sharpe Ratios (risk-adjusted return ratios) developed by William Sharpe, a Nobel Prize winner.