

# The Ten Commandments: Of Investing

Ever wonder what it would be like to have a lot of money? To be in retirement, know that you will never have to work again, and be completely financially secure, all at the same time? This may sound too good to be true, but it can certainly become a reality. We're not talking about a get-rich-quick scheme or a magic potion that will make everything all right. What we are going to talk about is meticulous financial planning for the future and how this will let you enjoy your retirement the way it should be enjoyed. Unfortunately, this will not happen for all of us. It is estimated that only 8% of Americans retire into the lifestyle to which they're accustomed.

Why is it that 92 out of 100 people fail to reach their retirement goals? The answer is a lack of knowledge and discipline. Only those who are willing to think about the future and plan for it properly will be accredited with the blissfulness of a worry-free retirement. For those who will not attain this, there is a simple explanation: they haven't planned to fail – they've failed to plan. In the good old days, retirees could count on three sources of income – social security, pension plans, and personal savings. However, it is becoming increasingly apparent that personal savings will have to be the bulk of your retirement income. The following steps will provide you with the basic know-how that you will need to accomplish all of your retirement objectives. Remember that discipline is the key – it will be up to you to enforce this plan once you have acquired the knowledge.

## **ONE: Thou Shalt Plan Ahead**

A comfortable retirement starts with defining the goals that are to be met. This is a step that can be accomplished easily if you take into account that the suggested minimum you will need is about 70-80% of your current total income. This does not mean that you will need to put away 70-80% of your income every year. Rather, it is an estimate you should use to analyze the income you will need during retirement, assuming a lifestyle similar to the one you are used to now. Many Americans are simply failing to save enough on a regular basis, or saving their money in the wrong programs.

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## **TWO: Thou Shalt Do The Math**

Once you've set your goal, the next step is to determine how much you'll need to save to meet your goal. Let's look at an example. Assume that the goal is to accumulate a nest egg of \$1 million in 20 years, using a 10% rate of return and a 35% tax bracket. Given these parameters, anyone setting this goal would need to save \$24,184 annually, or a \$283,797 lump sum, or a combination of the two. Shortly we'll be reviewing how to potentially lower the savings amount without reducing the \$1 million goal.

## **THREE: Thou Shalt Love Father Time**

Time is definitely money. The earlier you start to save, the less you actually have to save in order to meet your goal. Let's take another look at the \$1 million example. If you gave yourself 25 years instead of 20 years to save, your annual savings need would decrease to \$15,945 – a 34% difference! Also, the earlier of a start you have, the more risk you are allowed to take. Having a longer time horizon permits make-up time to correct possible mistakes. So start early!

## **FOUR: Thou Shalt Take Advantage Of Company Sponsored Plans**

Taking advantage of all of your investment options means utilizing all of the opportunities available to you. Though we are focusing on personal savings, there are other avenues that should be employed beforehand. Social security is automatically deducted from your paycheck by the government, but a retirement plan sponsored by your employer can be extremely beneficial. We highly recommend that you commit the full amount to your company plan before you put money into a personal savings plan.

## **FIVE: Thou Shalt Develop An Asset Allocation Plan**

Perhaps the most important aspect of saving for retirement is to install an asset allocation plan, suited specifically for your needs, that will give you the greatest amount of return while preserving your risk. This is accomplished through assessment of your time horizon, risk tolerance level, and retirement objectives with sophisticated software utilized by Retirement Capital Group. We have the ability, upon evaluation of these variables, to generate user-friendly reports that explain exactly how you should allocate your money among the different asset classes. Once this has been completed, further analysis of this proposed mix

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renders particular investment products as recommendations for your portfolio. We offer this service free of charge and highly advocate its use.

### **SIX: Thou Shalt Not Be Too Conservative**

Any sound investment strategy will call for diversification among different asset classes –stocks, bonds, and international investments - just to name a few. Over the long term, asset allocation can help minimize the downside while still giving good returns on the upside – a winning approach. However, you have to make sure you don't under-invest in the stock arena. Many people feel that prudent investing means bonds. Wrong .Bonds actually mean a lower standard of living. The problem with using bonds in building your retirement nest egg is that they don't beat inflation over time, particularly since there's little opportunity for capital gains. Stocks are inflation champions historically outpacing inflation by 7% per year. Many experts believe that a retirement portfolio for an average 50 year-old should reflect stocks and stock mutual funds in the 70-80% range. Remember, if you save regularly, the market's volatility is your friend – not your enemy. The market is risky only when your time frame is short (under five years) – which is not the case when planning for retirement.

### **SEVEN: Thou Shalt Save and Invest Regularly**

Now we're down to the discipline and execution part. The key is to think of your retirement goal as a fixed expense, just like your mortgage. You wouldn't think of missing your mortgage payment because you wanted to do something else with the money. Take our \$1 million example first mentioned in Commandment Two. The \$24,000 per year works out to \$2,000 per month. This \$2,000 should be invested every month before any discretionary spending takes place. The key is discipline. There's a \$1 million liability due in 20 years – anything less than \$2,000 per month means you'll default on the obligation – an obligation to yourself and your spouse.

### **EIGHT: Thou Shalt Invest With Winners**

It's unfortunate to note that most individuals are far too willing to accept mediocre investment returns. You should invest with those money managers and mutual funds that have managed to beat the market over the long-term. Forget about one-year wonders and the latest get-rich-quick scheme. Invest with winners – money managers who have done it over several market cycles or about 5 to 10 years or more.

Let's take another look at the \$1 million nest egg goal and analyze the impact of

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poor performance on the ability to attain your goal. Our first determination was that \$24,184 was needed annually if we assumed a 10% rate of return. If returns were only 8%, our annual savings would have to be \$28,145 to build the \$1 million nest egg. This 2% drop in our rate of return caused a 16% increase in required savings per year. This difference can easily be overcome if you're diligent in selecting your investments, whether it is stocks, bonds, mutual funds, or money managers.

### **NINE: Thou Shalt Minimize Taxes**

Paying taxes every year – maybe losing 30-40% of your earnings – on money being invested for a long-term objective is the financial equivalent of hardening of the arteries. Your investments and savings have to work much harder to do the same job. If you don't need immediate access to the money being set aside for your nest egg, paying taxes on this money is simply an unnecessary expense. Let's look at another example using our \$1 million nest egg. As we've seen, assuming a 10% return and a 35% tax bracket, it takes \$24,184 per year for 20 years to build \$1 million. Now, assuming you can eliminate annual taxation on your earnings, to accumulate \$1 million would take only \$15,872 per year in savings – a 34% decrease. Even better, if you still save the \$24,184 annually and invest it tax-deferred, your nest egg would be worth \$1,523,652 – 52% more money simply because you elected to eliminate annual taxation. When it comes to investing, you need to secure every edge. Tax-deferral is an absolute necessity. So where do you find this tax-deferred edge? There are several programs offering tax-deferral: 401(k)s, IRAs, KEOGHs, SIMPLE-IRAs, SEP-IRAs, and pension plans. These types of plans should be funded as much as possible to take advantage of their double tax benefits. Additionally, guaranteed fixed annuities, variable annuities, and variable life insurance are programs that allow you to defer taxes on your money once you've fully funded the tax-deductible programs.

### **TEN: Thou Shalt Stick To the Plan**

Once you've successfully completed all the appropriate steps (not all of them may apply to you as of yet) and you've set your investment plan into action, the last step is the easiest of all - do nothing. Sit back, relax, and watch your retirement nest egg develop into the grown-up nest you always knew it could. It is extremely important to stick to the plan that was painstakingly developed to propel you into a joyous retirement. It is, however, just as important to review your portfolio annually. This will keep your risk level in check, could boost returns, and ensure that your investments are kept on track. Your objectives will change over the years,

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and your portfolio will have to be modified in order to concur with those changes. Above all, remember to look at your portfolio as a whole, for the whole portfolio will tend to perform less erratically than its component parts. The market always has and always will continue to move in cycles. While one sector is up, another will be down, but your allocation plan should balance everything out. Retirement planning doesn't have to be a painful experience. In fact, most people find that when they have a specific goal in mind and a realistic way to attain that goal, it's much easier to follow through with a disciplined investment plan. Experience tells us, however, if you don't obey the Ten Commandments, your retirement years will be far less than what you imagined, and much less comfortable. And remember, the best route to financial freedom is to take an active role in your financial affairs. Don't let money worries destroy your retirement dream. Declare independence now and start on the path of all paths – the one that will lead you into a blissful, worry-free retirement life.

To learn more, contact Retirement Strategies Group toll-free at (800) 423-4891 email, or visit our Retirement Planning and Investment Center on the web at <http://www.MyRetirementStrategy.com>. Retirement Strategies Group is one of America's leaders in retirement planning and endorsed by many prestigious national associations and affinity groups.

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