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SPECIAL ALERT – from Frank M.Antalek, Chief Portfolio Strategist

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Case Study – A Strategy for Investment Success

In my previous communication, I questioned whether the typical investor has the proper portfolio asset allocation. Based on your responses, it is obvious many of you are wondering the same thing. Also received were queries asking; "How do I know if I am on the right track." I can certainly understand the confusion; so much advice is provided through media outlets that it is easy to get overwhelmed by the multitude of "answers". Being on the "right" track is a highly individualized pursuit; it has nothing to do with an experts prescribed asset allocation for the second half of the year. It is different for everyone and requires a deep understanding of where you are today, where you want to go tomorrow, and the resources you have at your disposal. In an effort to cast more light on this topic, I have decided to prepare a case study reflecting a real world example that demonstrates how one knows if they are on the right track.

<u>Case Study Assumptions</u>:

A couple aged 55 and 56 wish to retire at age 65 and live on $100,000 per year after-taxes adjusted for 3% annual inflation.

They have investment assets of $1,000,000. They are able to save $30,000 per year from their employment earnings. All earnings from their investments are reinvested.

<u>Step 1 – Quantify Need to Reach Objective</u>

The many variables and assumptions that go into this calculation are critical. They include projected rates of return, taxes, annual savings, as well as future income sources such as Social Security income. In this case study, we have calculated the required value of investment accounts at age 65 to be $2,799,060. Prior to reaching age 65 this number can be referred to as a barometer to determine if the couple is on track to reach their objective.

<u>Step 2 – Compare Objective Target to Current Resources</u>

Objective Target = $2,799,060
Current Resources = $1,000,000 + 30,000/yr savings + reinvested earnings

<u>Current Events</u>

Pessimism has been growing since late April about the health of the economy. The Dow Jones Industrial Average stock index dropped 10 percent for the second quarter, while the Standard & Poor's 500 index lost 11.9 percent.

<u>Historical Perspective</u>

The US Stock Market as measured by the Standard & Poor's 500 Index is down about 8% since the beginning of the year.

The market is up nearly 14% over the last year and since March 6, 2009 is up over 50%.

The S&P500 Index is more than 30% below where it was on September 1, 2000.

Sage Hill Advisory & Management
18 Division Street
Suite 210A
Saratoga Springs, NY 12866
Main: 518-871-1214
www.sagehilladvisory.com

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Step 3 – Determine if Current Resources will enable you to reach Target

Using the assumptions outlined above we projected current resources forward. Our calculations indicate there is a shortfall of $500,000 at age 65.

Step 4 – Strategize to determine what Options are available to reach Objective

Our calculations indicate an additional $3,091 per month of savings would be required to reach objectives. Alternatively, an increase in the rate of return earned on the portfolio of .89% would fund the deficit. Finally, the income objective could be reduced to better align the objective with existing resources.

Step 5 – Develop Game Plan to reach Objective

Discussions with the couple led us to develop a two pronged attack. Because the client did not want to adjust their current standard of living, additional savings were thrown out as a possible solution. A more acceptable approach was developed including reducing the income objective to $90,000 per year and making portfolio adjustments that increased projected returns by .25%. A more aggressive reallocation of their portfolio was considered but would have also increased risk and undermined the primary objective of a secure retirement. Far too often advisors try to fund a retirement income shortfall through increased investment returns using investment vehicles with unpredictable rates of return. Utilizing investment vehicles with downside market risk protection and income guarantees provided us with the balance needed to assure expected income is achieved now and into the future. In the end, the couple agreed a more cautious investment posture would ultimately provide them with the stress free retirement they desired.

Step 6 – Confirm if revised Game Plan meets Target

After adjusting their objective and making some changes to their portfolio, our calculations indicated there would be a shortfall of the targeted portfolio value of $16,931 at age 65. Considering this deficit could be wiped out with additional savings of just $100 per month, our clients decided to adjust their spending to reach the target.

Future Opportunity

Are you certain that your investment portfolio is designed to meet ***your*** objectives?

Do you sleep well at night knowing your portfolio is designed to withstand unforeseen risks?

Do you have a guaranteed income pension plan?

Have you made investment decisions in reaction to market activity as opposed to making changes due to changes in your circumstances?

If you have answered yes to any of these questions, I encourage you to contact our office to schedule a portfolio evaluation. Our number is (518) 871-1214.

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Step 7 – Understand Risk

Make sure that your advisor and portfolio manager understand and assist you in understanding all risks: Market risk, Credit Risk, Inflation risk, Interest Rate risk

Step 8 – Understand Your Investments – Insist on being Educated!

Zealous protection of your lifestyle financial requirements, particularly in today's environment, is critical. The investment instruments today go far beyond allocations to equities, bonds, and cash. Many major creditworthy institutions offer investment instruments today which may enable you to participate in growth, while providing you with protection against downside market risk…some such instruments are reasonable; some are not. Some investment considerations, as apparently simple as bonds vs. bond funds offer significant differences in risks and terms.

Understand and insist on being properly educated and communicated with by your advisor.

Step 9 – Take Action

Many investors are bewildered by such extraordinary events in recent times: extremely volatile equities markets, low interest rates on bonds, concern about municipalities and corporations being able to maintain bond obligations, Greece debt crisis, Madoff-type catastrophes, U.S. debt levels.

One thing is certain: there will always be critical issues to consider, research, study and evaluate. The Solution does not lie at any time with *rotating* your assets within one asset area….cash, equities, bonds, gold, CD's, annuities.

Understand your requirements for income today and inflationary impact on your future income. Protect the sources of that income truly zealously and take action once you are properly educated.

Conclusion

In the case study presented, you may have noticed that we didn't mention asset allocation until Step 5 and didn't have much to say about it at that point. Successful investing is not about positioning your portfolio based on some forecast of the future and the expected ramifications on the various assets you hold. It is about knowing what you are trying to achieve, understanding the resources you have at your disposal, and deploying the resources in an effective way. Only then can you develop a portfolio asset allocation that is properly aligned with your objectives.

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