What is your Financial Speed?

A GUIDE TO RETIREMENT PLANNING

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Introduction

If you're like 90 percent of Americans, you're looking forward to retirement to finally enjoy the fruits of your labors. However, have you stopped to think whether you're well prepared for what lies ahead? Ask any retiree, and you'll discover that retirement is full of unknowns, especially in a world of interest rate manipulation by central banks, high frequency trading on Wall Street, high sovereign and personal debt, and volatility in markets-to name just a few obstacles. This means that now is the best time to prepare for retirement. Why? There have never been more options for retirement planning and resources that can help you plan wisely. By learning and applying updated concepts and smarter saving techniques, you'll be planning well for your retirement and be able to face it with added confidence.

Have you tried creating a financial plan in the past? Perhaps, at one point, you thought of creating a financial plan and you visited a financial planner, but what you received was a big book filled with complex information and charts that didn't make any sense to you. Despite any previous experience, retirement planning doesn't have to be complex, and with a few tips, I can help you map out your financial plan in two to three pages. However, you will first need to have a plan.

Planning for your retirement isn't just about picking the best investment that generates the highest returns or jumping from one mutual fund to another. The most important thing is to first have a plan. One important retirement planning consideration that you should be figuring out is how to stretch your savings to help you live comfortably during your golden years and also pass along a sizable portion of wealth to your loved ones. By developing a broad portfolio that includes components such as a 401(k) plan, pensions, Social Security, investment accounts and personal savings, your retirement savings can continue to grow even after you begin collecting your retirement income. Your ideal investment choice depends highly on your risk tolerance and how fast your portfolio really needs to be moving to get to your destination - or your "financial speed." Continue reading and discover what you need to know about today's retirement planning.

In this eBook, I will help you understand why you should plan for retirement and methods that will help enhance your retirement income strategy.

Why Plan for Retirement?

Despite how much you love your work, the time will come when you'll have to punch out and start your retirement. When this time comes, you'll need to have a robust financial retirement plan. The main goal for most people throughout their work years is to accumulate enough savings to support that plan. However, saving money is just the beginning: You'll also have to account for taxes, plan for retirement expenses, account for your sources of revenue, and determine the best investment to help grow your money. You will also need to plan for retirement because of:

The Uncertainty of Pension and Social Security Benefits

An estimated 96 percent of the entire American workforce is covered by some sort of pension or Social Security plan. However, due to the economic downturn, most Americans are uncertain about the future of their Social Security benefits. Apart from the drop in worker-to-beneficiary ratio, people's lifespans are growing longer and the birth rate is declining. Additionally, the cost of living is going up. The Social Security Board of Trustees even released an annual report that projected that Social Security costs will exceed the program's income by the year 2020. This is mainly due to demographic trends. When the program was first established, the ratio for a worker to the beneficiary was 15:1, but today the ratio is closer to 3:1, and it's expected to drop to 2:1 by 2035. This means that the Social Security payroll tax will continue rising for most workers due to the 7.3 percent increase in taxable earnings. Pension systems also follow a similar pattern, and greater burdens are being placed on these systems as more people retire. Additionally, retirees are living longer due to advancement in healthcare.

Private pension plans are not immune to these shortcomings. Corporate collapse cases, such the bankruptcy of Enron in 2001, have increased now more than ever. This company's collapse is a good example that shows how easily your employer-sponsored stocks can be wiped out in seconds.

Although defined-benefit pension plans are supposed to guarantee members a specific monthly pension, most of them have failed to do so. This isn't something new, and you may have seen such cases featured in business news. Most of these plans sometimes require increased participant contribution, benefit reduction, or even both for the plans to continue operating. Because these pension plans are unreliable, most employers now use defined-contribution plans. These plans are meant to protect employers from liability, but for employees, they create uncertainties of a financially secure retirement. These uncertainties have shifted the financing of retirement from the government and employers to employees, which leaves them no other choice but to plan their own retirements.

Saving your money, investing it, or putting it in a tax-advantaged retirement account are some of the basic ways that you can save for your retirement. However, there are other important decisions that you have to make along the way - for instance, when to start taking your Social Security, which retirement accounts you should use, which investment you should make, and many others.

Unforeseen medical expenses

One of the major risks to your retirement plan is the unexpected medical expenses. Remember that health is wealth, and as you near retirement, you shouldn't overlook or underestimate healthcare because it's the most expensive and most important aspect of your golden years. Despite the advancement in healthcare, as we age our health deteriorates and we have to spend more money. It all starts with needing some help for an hour or two a day, but with time, it progresses and the level of care you need increases significantly. I know several people who have spent their capital - which amounts to hundreds of thousands of dollars - in assisted-living facilities, and most of the time their children have to come to their aid.

Many pre-retirees often assume that federal health insurance and Medicare programs for those over 65 will cover all the medical expenses, which isn’t the case. Medicare only covers 62 percent of all expenses related to health-care services. This means that seniors have to pay a substantial amount as employment-based health programs for retirees disappear and Medicare limits coverage. Additionally, traditional Medicare doesn’t cover vision, dental, or long-term care. You'll need to purchase supplemental insurance to cover the costs that Medicare doesn’t cover. This has led to more employees working even after retirement.

Estate planning

As you enter retirement, now is the best time to prepare your estate plan and update it. As you think about the assets, you want to leave behind for your loved ones, consider having a will, a list of all your financial information, and retirement plan beneficiaries. However, if you want to lower future taxes on your estate, consider having:

A trust

Although it’s a more complex strategy for leaving your assets, a trust gives you more control and allows you to appoint a trustee who will handle all administrative tasks. A trust also gives you more privacy compared to a will, and it lowers the amount of your estate that can be subjected to taxes.

Roth Assets

There are several benefits of converting your traditional retirement plan into a Roth IRA including:

- The taxes that you have to pay after converting to a Roth IRA are eventually removed from your estate’s value, which lowers the taxes you have to pay in future.
- Roth IRAs are not subject to RMDs (required minimum distributions), which means they can continue growing until your heirs inherit them.
- Your loved ones will then take the RMDs but they will be tax-free only if the account had been open for a minimum of five years.

Failing to have a well-planned retirement nest egg may force you to liquidate your property in order to cover the high expenses that come with retirement. This may prevent you from leaving your loved ones with a portion of your wealth as you might have wished.

Flexibility in dealing with changes

Life often tends to throw us a curve ball when we least expect it, including unexpected financial needs, illnesses, and the uncertainty of pension and Social Security programs just to spell out a few examples. When drawing up your spending plan to save for retirement, you'll certainly forget to include a budget for your child who may have lost his or her job and needs a huge amount of money. Will you remember to include a $10,000 bill for major dental work in the same year that your dog requires a $5,000 hip replacement? In your retirement plan, you need to include funds for emergencies.

Having a well-planned retirement nest egg will greatly help you cope with the unpredictable challenges as they occur later on in life. The main challenge you’re facing now is finding the best way to set a retirement plan.

Chapter One: Retiring in Our New Reality

During your working career, globalization and technology have changed your work environment in several ways. Many of the societal changes have also changed your personal life as well. Therefore, it should be no surprise that these same factors have led to several changes in the retirement landscape. Some changes are positive but others are unwelcome. Generally, your retirement will be totally different from that of your parents and grandparents. Here is a deeper look at how retirement has changed:

Retirement of the Past

<u>Social Security</u>

In the past, Social Security and pension plans served as critical sources of income for many American retirees. Social Security could offset the corrosive effects of inflation on incomes through COLA (cost of living allowance). Amendments in the 1980s made Social Security even better by including the disability insurance program, which provided Americans with coverage against economic insecurity.

<u>ERISA</u>

The Employee Retirement Income Security Act of 1974 - commonly referred to as ERISA - set the minimum standards for private industry pension funds. ERISA was mainly enacted to protect employees and other beneficiaries. It enabled married people to receive a joint-and-survivor annuity.

<u>DJIA</u>

People planning retirement in the past could invest in the Dow Jones Industrial Average (DJIA) and reap great benefits. For instance, on January 14, 2000, the Dow closed at 11,722.98 due to the boom of Internet businesses. The Dow had shot up by over 1,400 percent from 776 close on August 12, 1982. That was the end of the greatest bull market in the U.S. history.

Retirement Today

One of the common phrases used by the politicians is “with dignity, for all.” However, what does this mean? Over the past 40 years, nothing has been done to solve the several challenges Americans are facing in the defined contribution plans (401k), pension plans and Social Security. Unlike in the past, today, retirees have to pay for the exploding health care costs out-of-pocket. The skyrocketing health insurance premiums and prescription drug costs are worrisome even for those above 65 years and are eligible for Medicare. The high drug costs and staggering health insurance have compelled many retirees to go back to work just to receive health benefits through employers or to earn money to pay for the high medical expenses.

401(K) Programs

As of March 2018, 401(K) plans were estimated to hold $5.3 trillion in assets, which represented only 19 percent of $28 trillion in the U.S. retirement assets. This includes both employer-sponsored retirement plans (defined benefits and defined contributions, annuities, and individual *retirement accounts (IRA).* Pensions Plans are Becoming Extinct

Today's retirement reality is that most people in the 20-something and 30-something age groups won't have the security provided by pension plans that our parents and grandparents enjoyed. Many companies froze their pension programs post-recession after incurring huge losses. Pension plans have gone the way of the dinosaurs in the U.S. and have been replaced by 401(k) plans, which require that you save and invest for your retirement on your own. Most companies that offer 401(k) plans match what you contribute with a small portion. However, even after you contribute the maximum that's allowed by the federal tax laws and the company tops on that an equal amount, you'll still be subject to variations like the stock market where you have to shoulder all the risk.

10,000 Baby Boomers are Turning 65 Every Day

"Each day, an estimated 10,000 baby boomers are retiring and receiving Social Security and Medicare benefits." You might have heard this statement over the last couple of years, but is this figure true? 10,000 people every day for 365 days is almost 4 million people. However, everything we know about the Baby Boomer generation is that it's big. It's estimated that 76 million people were born between the years 1946 and 1964 the period, which led to the rise of the Baby Boomer generation. X multiplied by 4 = 76 gives you 19 where X equals to 19.

A 2013 report released by the Social Security Administration stated that the baby boomer wave is a significant problem for the agency. According to the report, by the year 2015, nearly 33 percent of the entire workforce will be eligible to retire, and this trend is expected to continue for the next 19 years. The retirement of Baby Boomers will not only put pressure on the Social Security system but also on Medicare.

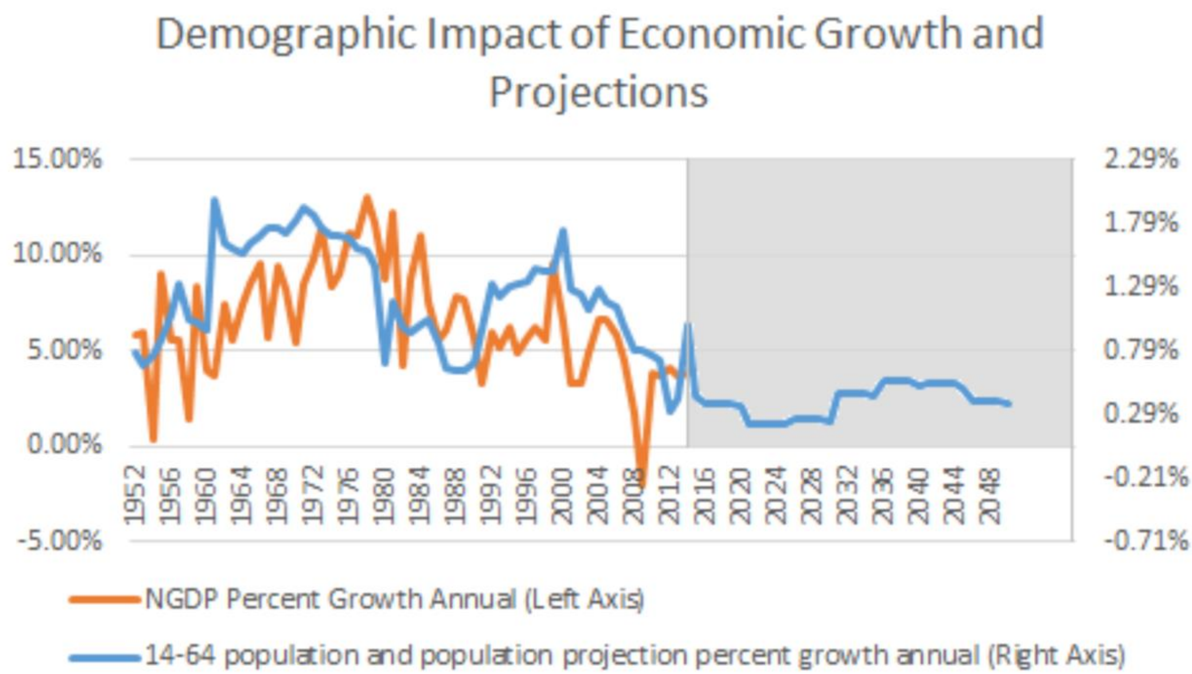
In 2016, the First Baby Boomers Turned 70½

While the first Baby Boomers turned 70½, the U.S. fertility rate was at its lowest since the first records in the year 1909. This disastrous combination indicates that by the year 2030, retirees will make up more than 20 percent of the entire U.S. population, according to the U.S. Department of Commerce Economics and Statistics Administration.

To make matters worse, the percentage of workers is declining at an alarming rate. All these factors combined have created the perfect storm for the U.S. economy, and here's why:

The deflationary environment

The following chart indicates that a high growth in the working age group led to a nominal Gross Domestic Product (GDP) in past decades.



Source U.S. Department of Commerce Economics and Statistics Administration.

This is because spending drops by over 37 percent after retirement. Because consumption equates to 70 percent of the U.S. economic activity, this will be a major cause of inflation. Historically, corporate profits and economic growth go hand in hand. Because this trend will continue for the next 19 years, company earnings will be cut down and returns for investors will go down.

A shift in financial markets

A recent survey from Bankrate indicates that the average savings for an average retiree equals $136,000. Assuming that the returns are 7 percent, the yearly income is only $9,000. This is $36,000 shy of the ideal retirement annually income. This means that retirees have to look for funds from other avenues. Traditionally, the last result is investing in bonds. Research shows that after you hit 65 years of age, you go through a profound asset class change. You begin to trim your equity and raise your bond exposure.

Bearish stocks

The IRS minimum and compulsory drawdown laws for all retirement programs including 401(k)s and IRAs require retirees who have already turned 70½ to withdraw a minimum of 5 percent of the value of the plan annually. This is trouble for the stock market because over 70 percent of baby boomers have their portfolios in stock. The Tax Policy Center in the year 2016 discovered that over 35 percent of the U.S. stock was held by retirement accounts like 401(K)s and IRAs. This wave of forced selling will cause a flooded market with equities and bonds worth billions of dollars and as usual the higher the supply, the lower the demand, which leads to a lower price. Because retirees will be forced to divest their investment within the next decade, investors should consider exit strategies.

Costly products

If you're thinking of relying solely on your pension and Social Security check during retirement, you should reconsider. Picture a gray-haired couple on the beach, and grandpa is teaching his grandkids how to fish. Is this how you want to spend your retirement? According to a 2016 survey conducted by the Bureau of Labor Statistics, older households spend approximately $45, 756 annually, which is $3,800 monthly. This means that you have to make sound financial decisions if you want to live your dreams after retirement.

Rising retirement age

Approximately half of the entire U.S. workforce won't be able to maintain their current standards of living after retirement. Earnings from social security and 401(k)s are meager, and half of U.S. employers don't offer employer-sponsored plans. Additionally, due to the rising life expectancy, the years spent in retirement have increased dramatically, and health care costs have also increased rapidly over the years.

Factors that have led to a rise in retirement age include:

Pension type

As we noted earlier, pension plans are becoming extinct. Shifting from defined benefit plans to 401(k) programs has eliminated incentives for employees to retire. Current studies and a report done by Bankrate indicate that most workers that are covered by 401(K) plans tend to retire a year or two later compared to workers covered by defined benefit plans.

Social Security

The recent changes that have been made for one to be eligible for Social Security benefits and the liberalization for the elimination of the earning has led many people to continue working even after 65 years of ag. The delayed retirement benefits, which increase earnings for each delayed claims between full retirement age and the age of 70, has acted as an incentive for people to continue working.

Improved healthcare and longevity

People are healthier and life expectancy has greatly improved. The link between good health and the activeness of a labor force is very strong.

The decline of health insurance

If you combine the declining employer-provided health insurance for retirees with the skyrocketing health care costs, you will understand why many workers want to continue working and receive their employers' health coverage. These employees work until they hit 65 only to qualify for Medicare. Some continue working past 65 because Medicare doesn’t cover the full cost.

Chapter Two: The Risk of Increasing Tax Rates

High taxes

Conventional financial wisdom told us that tax-deferred investing was the most advantageous. In today's world, however, our country is faced with an ever-increasing national debt and unfunded liabilities. We will discuss the following ideas in this chapter:

- Why the CBO and other experts say tax rates could double
- How our nation's ever-increasing debt may force rates to rise.
- The truth about how much our entitlements are underfunded.
- Why tax rates could be forced higher than expected in retirement.
- How rising tax rates may affect your cash flow in retirement.

National debt

As of 2017, the national debt was over $20 trillion whereby the top spending was income and defense and war, Medicare and Medicaid, social security, federal pensions, and interest on the debt. As at now, the national debt means that every citizen is responsible for over $60,000. One of the mistakes that most pre-retirees make when planning for retirement is focusing mainly on their personal budgets, forgetting how the national debt will affect their future. Social security owns the greatest percentage of the U.S. national debt, which is nearly $3 trillion. This has forced social security to tax your retirement to be able to fund the national debt. The excess revenue is used to purchase treasures like bonds, which transfers the program funds to the government cash pool and used to pay for other services.

Apart from social security, the government extracts funds from both public and private pensions, military retirement funds, and other similar retirement funds to avoid defaulting on the debt. The national debt also affects the daily lives of U.S. citizens in different ways including:

The cost of goods and services

The prices of goods and services have increased over the last couple of years. This is because of the high interest rates on Treasury securities that have increased. This has also rendered investment in corporations as riskier. Companies have to promise higher ROIs (return on investment) to lure more financiers. For corporations to be able to pay the high interest rates, they pass the burden to their consumers. This raises the price of goods and services, which eventually causes inflation, and reduced purchasing power of the U.S. dollar.

A decreased standard of living

Due to the high national debt, the probability of defaulting is high. This, in turn, causes the interest rates of securities like treasury bonds to increase. In such a situation, the government is only forced to divert more funds towards paying for interest rates and restricting available funds from being used for economic growth and public good.

Homeowners’ mortgage rates skyrocket

As the U.S. Treasury and Federal Reserve interest rates increase, mortgage rates also increase. Because mortgages become expensive, value for homes are lowered to accommodate more future homeowners that qualify for mortgage loans.

No one can tell for sure where income tax rates will reach in the future. Are we going to pay more? How is the government going to combat the high cost of healthcare and the dwindling social security funds? Will the high taxes affect your retirement? No one can answer these questions for sure, and those who claim they know where taxes will be in future are only guessing. Are they making educated guesses? Maybe they are. With the new tax law signed by President Trump in the year 2017, retirees will be forced to watch their income more carefully to avoid ending up in high tax brackets. Total retiree income includes withdrawals from retirement accounts and ordinary income. For instance, retirees with large balances should consider distributing them before they turn 70½ years when they will be required to make distributions in some accounts. This way, retirees won’t be forced into higher tax brackets.

The new law has made it even more difficult for small businesses to offer retirement accounts. Most of the 401(K) plans and other defined contribution benefits today are only offered by large corporations, because they’re expensive for businesses to administer. The recent tax reform has made it even more difficult for small businesses to accommodate these accounts. The law reduces income tax for small businesses but it doesn’t address offering or even contributing to employee retirement plans.

Much of our history has experienced significantly higher tax rates, with the historical average top tax rate at 54.1%. Historically, periods of reduced tax cuts have not lasted long. The question is: will history repeat itself? According to the Congressional Budget Office:

> “If Social Security, Medicare, and Medicaid go unchanged, the rate for the lowest tax bracket would increase from 10% to 25%; the tax rate on incomes in the current 25% bracket would have to be increased to 63%; and the tax rate of the highest bracket would have to be raised from 35% to 88%.”

Chapter Three: Income Planning in Retirement

Ah, now to the main question. One rule of thumb is you'll approximately need 70 percent of your annual pre-retirement salary for you to live comfortably. However, this may be only enough if you have already paid off your mortgage and you're in good health before kissing the office goodbye. However, if you intend to build your dream home, travel around the globe, or pursue that Ph.D. you've always wanted, you'll need 100 percent of your annual salary or even more. Ensure that you make realistic estimations on the expenses you'll have during retirement. It's important to be honest with yourself about the life you want to live and approximately how much it will cost. Estimates are important to help you figure out the amount you need to save in order to afford retirement. Before you can determine how large your nest egg should be, do the following:

Decide when you want to retire

Decide your annual income during retirement. It's advisable to make your estimate on the high end. Assume that you'll need 80 percent of your current salary for you to maintain your standard of living.

Add the market value of your investments and savings.

- Make a realistic annual rate of return (including the rate of inflation) on your investment. You can assume that inflation will be 4 percent annually, and a realistic rate of return should range between 6 to 10 percent. To be on the safe side, ensure that you make estimates on the lower end.
- Estimate the value of your social security benefits. You can use the social security website calculator to determine the value of your benefits.
- Estimate the value of your company pension plan if you have one. You can obtain an estimate by requesting your plan provider.

Sample calculation

Before proceeding to the sample calculation, it's important that you factor in inflation in your retirement plan. It's easy to make estimates on your retirement needs in today's dollars, but what you should worry about more is converting those figures into tomorrow's dollars. The difference between the current numbers and future numbers is inflation. Ensure that you don't mix the two because it won't make any sense.

After computing all numbers in today's dollars proceed and add an inflation assumption in order to get a more realistic estimate of the amount you will need when making contributions. Now to the sample calculation, we will consider Jane, a 45-year-old woman who's earning $50,000 after taxes. Below are her plans for retirement:

- She wants to retire at the age of 65.
- She estimates that she will need an annual retirement income of $45,000 in today's dollars (without adjusting for inflation).
- She has $150,000 in investment and savings.
- After 20 years of investing (age 45 to 65), Jane should earn a realistic income of 6 percent annualized real rate of her investment (net of inflation).
- She doesn't have a company pension plan.

With these details, we can easily calculate Jane's estimated social security benefits. If Jane was born a day like today 45 years ago and she plans to retire after 20 years from now, the SSA website estimates her benefits to be $1,109 per month.

Jane has estimated that she'll need a retirement income of $45,000 (in today's dollars) annually for her to live comfortably during her retirement years. This will amount to $3,750 per month. If Jane's social security comes as estimated, we can subtract her monthly benefits from the needed monthly income amount. $3,750 - $1,109 = $2,641. This means that Jane has to fund herself $2,641 or $31,692 per year.

Let's assume that Jane is healthy and her family has a history of longevity. She also wishes to leave a sizable portion of wealth to her two children. Therefore, she wants a nest egg that is large enough to help her live off of its investment returns without eating into her principal during her retirement years. Jane should earn at least 6 percent of returns (net of inflation), Jane will need a nest egg of $528,200 ($31,692 / 0.06).

Remember that we haven't accounted for taxes that Jane will be required to pay on her investment income. Assuming that her investment income and capital gains will be taxed at 20 percent, she will need a nest egg of $660,250 to fund her entire retirement income ($660,250 earning 6 percent real returns produces an annual income of $31,692 after 20 percent tax deduction). Also, keep in mind that tax-deferred retirement assets will also be taxed at her ordinary tax rate. This leaves Jane with a less disposable income.

Keeping inflation in check

Note that all these numbers are in today's dollars and we haven't factored in inflation. In addition, because we're discussing a time period spanning two decades, it's important to consider inflation and its effects. The U.S. federal government has maintained an inflation rate ranging between 2 and 4 percent for the last many years, and financial analysts project that it will remain within this range for several other years to come. Assuming 4 percent inflation will keep your projections from falling below your actual financial needs.

In Jane's case, she needs a $660,250 nest egg for 20 years from today. To translate this into dollars of 20 years, we just need to multiply $660,250 by 1.04, 20 times. This is similar to putting 1.04 to the twentieth power multiplied by $660,250. Therefore, we shall have:

- Nest egg = $660,250 x 1.0420
- Nest egg = $660,250 x 2.19

- Nest egg = 1,445,947.5

You will notice that Jane now needs a $1.4 million nest egg, which is much larger than $660,250. The figures have changed due to inflation that erodes purchasing power over time and wage rates to increase in each year. Twenty years from now, Jane won't be spending $45,000 annually – she'll be spending $98,550 ($45,000 x 2.19).

Chapter Four: Helping Protect Against Market Loss

In all fields of human endeavor, only an elite few shine. Some disciplines aren't comparable like who are the best traffic cops, best baristas or psychiatrists of all times. It's tough to tell. However, in areas like box office results, book sales, sports and yes, investment returns, the results are often clear as day. Seeing how the best investors that ever existed built their fortunes. MIT, Yale, Colombia, Notre Dame, Duke, are the top five that had a leading investment performance.

Here are some of the things that you can learn from the best investors:

Help Protect your investment

The exaggerated increase of asset prices from the year 2009 caused overvaluation of the stock market. This means that managing wealth is quite difficult today. As an investor, how can you help protect your portfolio? The answer is quite simple; first and foremost, stop relying completely on traditional static portfolios. Such an approach can cause devastating losses at a time when there are high correlation and manipulation by the central bank. During the global financial crisis, I saw even 60 percent stock and 40 percent bond portfolios fall by almost 35 percent. This is a significant drop even for your balanced portfolio and most likely you won't be able to withstand.

Remember the missing rallies

It is often tempting to invest in the momentum. When volatility picks up, you may be tempted to trade in and then pull out of the market to protect your wealth. Unfortunately, doing this may increase the risk of missing the best days in the market, which can be very costly. A good example is JPMorgan Asset Management, which collapsed after missing some of the best times in the market. If an investor maintained their investment in the S&P 500 from the year 1993 up to 2013, they would have enjoyed the 9.2 percent annualized return. Missing just ten of the best days would have led to the collapse of those annualized returns to 5.4 percent.

It's also important to note that some of the best days in the market follow after the worst days and vice versa. Have a look at the following table from Wikipedia that puts the S&P 500's 20 worst and 20 best days.

Largest daily percentage losses

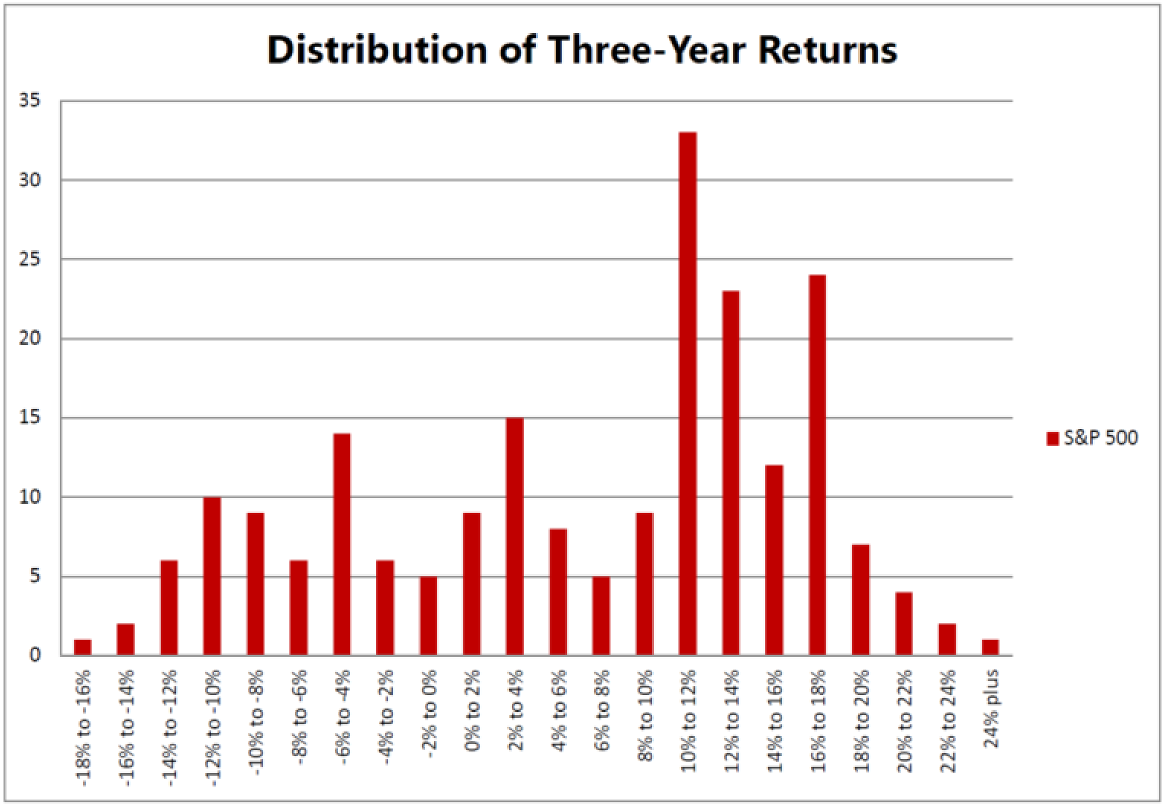
Rank	Date	Close	Net Change	% Change
1	1987-10-19	224.84	-57.86	-20.47
2	2008-10-15	907.84	-90.17	-9.03
3	2008-12-01	816.21	-80.03	-8.93
4	2008-09-29	1,106.42	-106.85	-8.81
5	1987-10-26	227.67	-20.55	-8.28
6	2008-10-09	909.92	-75.02	-7.62
7	1997-10-27	876.99	-64.65	-6.87
8	1998-08-31	957.28	-69.86	-6.80
9	1988-01-08	243.40	-17.67	-6.77
10	2008-11-20	752.44	-54.14	-6.71
11	1962-05-28	55.50	-3.97	-6.68
12	2011-08-08	1,119.46	-79.92	-6.66
13	1955-09-26	42.61	-3.02	-6.62
14	1989-10-13	333.65	-21.74	-6.12
15	2008-11-19	806.58	-52.54	-6.12
16	2008-10-22	896.78	-58.27	-6.10
17	2000-04-14	1,356.56	-83.95	-5.83
18	2008-10-07	996.23	-60.66	-5.74
19	1950-06-26	18.11	-1.03	-5.38
20	2009-01-20	805.22	-44.90	-5.28

Largest daily percentage gains

Rank	Date	Close	Net Change	% Change
1	2008-10-13	1,003.35	+104.13	+11.58
2	2008-10-28	940.51	+91.59	+10.79
3	1987-10-21	258.38	+21.55	+9.10
4	2009-03-23	822.92	+54.38	+7.08
5	2008-11-13	911.29	+58.99	+6.92
6	2008-11-24	851.81	+51.78	+6.47
7	2009-03-10	719.60	+43.07	+6.37
8	2008-11-21	800.03	+47.59	+6.32
9	2002-07-24	843.43	+45.73	+5.73
10	2008-09-30	1,113.78	+59.94	+5.42
11	2002-07-29	898.96	+46.12	+5.41
12	1987-10-20	236.83	+11.99	+5.33
13	2008-12-16	913.18	+44.61	+5.14
14	1997-10-28	921.85	+44.86	+5.12
15	1998-09-08	1,023.46	+49.57	+5.09
16	1970-05-27	72.77	+3.48	+5.02
17	2001-01-03	1,347.56	+64.29	+5.01
18	1987-10-29	244.77	+11.49	+4.93
19	2008-10-20	985.40	+44.85	+4.77
20	2000-03-16	1,458.47	+66.33	+4.76

Focus on the consistency of returns

Just like in any other field like sports, consistency is king when it comes to making investments. Unfortunately, this is easier said than done, especially because of the wild ride markets have been through over the last couple of years. Have a look at the following graph that shows annualized returns for the period of July 1, 1997, to the end of the year 2017.



Making random investments into different investment classes without first ascertaining the asset allocation, failing to follow a disciplined approach when making investments, and exiting abruptly from one asset class to another causes inconsistencies in the investment process. Consistency when investing is one of the keys to success. Random investments affect the portfolio. For instance, equity investors often have high hopes to get high rewards from their investments because of the risk they are taking by investing in high-risk assets. When stocks go up, they are very happy, however, when the stock market experiences vagaries, the excitement turns into fear, which eventually leads to short-term performance and a high aversion to losses. The hurried exit denies such investors the opportunity to benefit from long-term of their asset classes. As an equity fund investor, you should always remember that your portfolio would continue to be affected as long as there is continued volatility in the stock market.

Create an investment formula

I often emphasize the importance of having an investment formula before making an investment. Think of a formula as a set of important steps that you should follow all the time in your portfolio and at all market conditions. Now that you have that dream job and have already paid off all your debt, it’s time for you to start thinking about investing to help ensure that you enjoy your golden age after retirement. Investing your money is important as opposed to only saving because it enables you to amass wealth. You should save and invest if you want to become wealthy. Reduce your spending so that you can move forward and amass wealth. For your wealth to be more likely to grow, avoid making random investments and pulling your money out of your investment. Leave it there for it to potentially keep growing.

What to Do Before Investing

Ask yourself whether you’re ready to begin investing

Before you can begin investing, you have to make sure that you’re totally prepared. It doesn’t make any financial sense to start investing when you’re charging dollars on your credit cards. You should only think of investing when you are debt free and are spending less. However, you should take advantage of your employers' match programs if they are available. After you’re debt free, focus on investing.

Determine the amount you can invest

Before you can start investing, you should first determine how much you can actually invest, and how much you will continue investing whether on a monthly or annual basis. This will help you to determine the ideal investment for you and set clear and realistic goals. You shouldn’t invest your emergency fund because you may need quick access.

Know the different types of investment accounts and their risk levels

Knowing the standard investing accounts and tools is important. You can use these accounts to save for your retirement as well. However, you need to first know the difference between money market accounts and mutual funds. In addition, just like the old adage “don’t carry all your eggs in a single basket,” ensure that you spread your wealth among different accounts, even if you want to focus more on mutual funds. As you assess the different investment accounts, you should be honest with yourself about whether you will be comfortable taking the risk. This is where you will need a financial planner to help you. Remember that you’re not young anymore, when you’re in your twenties you could comfortably take risks because you had all the time you needed to recover. However, now that you are a bit old, you should be more conservative in the investments you make.

Talk to a financial planner

A financial planner will be of great assistance when venturing into the investment world. Have you tried searching for information about investing on the internet? You will find a wealth of information that may be confusing and overwhelming. Additionally, not all information you read online will be truthful. That’s why you should talk to a professional who can explain the different types of investment that are favorable for you. A financial planner will look at your portfolio and help you make the best decision. Your financial planner will help you in setting up an effective financial plan.

How a financial planner can help you

- Help you when you aren’t sure what to do or when you’re stuck.
- If you proceed to invest with online investment firms because they cost less, you may need a financial planner to help you understand what you’re investing in and how you can spread the risk.

Reasons why you should use an Investment Formula

- To monitor your investment
- To determine your real risk tolerance and for asset allocation
- To help you in purchasing high and selling low

Example of Possible Mutual Fund Investments

- International Stocks
- U.S. Stocks
- Real Estate
- Bonds
- Commodities

Why many people don't create their own investment formula

- Most people who want to invest don't know the importance of having an investment formula. This explains why there are several people making random investments and allowing fear and emotion to take control when vagaries occur.
- Others don't know how to create their own formula.
- Sometimes investors can be too trusting and believe what they are told by their advisors that everything is being handled.

Create a safety net for your investment plan

Do you have your own personal safety net? This is something that you should have to help better secure your future and that of your loved ones in case of the unknown. A financial safety net isn't your life savings or insurance policy but the risk-reducing measures you take. Similar to your financial safety net, you should have one for your investment. You can help optimize your investment by occasionally rebalancing your portfolio. Rebalancing is similar to resetting your portfolio to its original asset allocation. Rebalancing helps ensure that your portfolio doesn't overemphasize one or several asset categories, and this helps return your portfolio back to a comfortable risk level.

Although we emphasize on sticking to your plan by buying low and selling high, shifting your money away from an asset that is doing well to an asset that is doing a bit poorly may not be easy, but it may be a wise move. By cutting on the winners and adding on those referred to as losers, you will be rebalancing forces by buying low and hopefully, eventually selling high.

Set a specific date on your calendar or on your investment on when to rebalance your portfolio. Most financial experts often recommend rebalancing your portfolio on a regular interval, which can be after every 5 or 10 months. One of the advantages of doing this is that the calendar will remind you. Other experts recommend rebalancing after the relative weight of the asset class skyrockets or decreases beyond a certain percentage that you'll have set in advance. The benefit of using this strategy is that your investment will guide you on when to rebalance. However, in either case, ensure that you're rebalancing.

Get to know your portfolio the way wealthy people know about theirs

One of the things that we have noted is that most investors fail because of not having a written plan that can help them to hold their financial decisions. At its core, investing is a very simple activity, but it doesn't mean that investing itself is easy. However, the behaviors needed for success are straightforward. Having a written document to remind yourself of the necessary steps will help you to know and understand your portfolio better.

Understanding your portfolio better involves knowing and understanding your risk tolerance. You can compare risk tolerance with the size of your shoe; you need an investment that will fit you well. Investments are sometimes unpredictable, they can go up and down over time, and understanding your portfolio will help you stick with it, even when performance is weak.

Steps in understanding your risk tolerance

Determine how soon you will need the money you are about to invest

This is very important when making any investment. In case you will need your money in a month or two, then you should consider investing in a more conservative manner than if you want your money after 2 to 3 decades. If you will want the money you're investing in several years to come, putting it in cash is wasteful. While there's little risk of a significant fall in value, your money won't increase in value as well. In fact, inflation may erode it. Therefore, you need to know how long you will need money from your investment to understand your risk tolerance.

Have other sources of income

Your ability to earn money is an important factor in understanding your risk tolerance. If you are young and have a well-paying job, then you can comfortably take more risk because you won't be relying totally on your investment. However, if you are retired or nearing retirement and you will stop receiving income from your employer, then it's advisable to take less risk because if the markets fall, you won't have a way to find or get additional funds.

Consider your ability to endure weak markets

This may sound easier when said than done because markets tend to come back stronger after declining. However, when you see lots of red ink across your portfolio, you will find it harder to stay on the course, and you may be tempted to move your money. However, as we noted earlier, this can hurt your returns. A good example is the 2008 to 2009 market crash whereby many investors couldn't stomach the daily losses they were seeing on their portfolio, and they moved their money. Unfortunately, those who withdrew were very hesitant to move back into the market and after the S&P 500 tripled in value, they likely missed out. Therefore, you should have an allocation that you believe in and losses that you can stomach.

Investment experience

When determining your risk tolerance, it is important to also consider your level of investing experience. Have you been in the industry for some time but want to branch into other areas? Or are you very new to investing? It is wise that you always begin new undertakings with some level of caution, and investing is no different.

Know your investment objectives

When calculating how much risk you can handle, it's important that you first understand your investment objectives. Because you're saving for retirement, how much risk can you take with your savings? Surprisingly, I have met people who are quite comfortable investing their retirement funds in high-risk investments. If you are doing so or are planning to do so for the sole purpose of sheltering your investment from tax exposure, for instance, trading futures in an IRA ensure that you understand what you're doing. This strategy may be all right if you understand and have experience with trading futures, and you are only using a portion of your funds for this investment and not risking retiring on a single trade.

On the other hand, if you want to invest your entire IRA savings to futures, you have zero or little net worth and just want to avoid tax exposure; you should rethink your notion before you take on such risk. Although futures have received favorable capital gains for a long time, their rates are lower than that of regular income. Additionally, 60 percent of your gains will be charged lower than the two capital gains rates.

With these few tips, you will have a sense of your place on the risk tolerance scale. However, to understand your portfolio better, you will have to ask yourself some question. Here are eight questions that you should ask yourself to understand your portfolio better:

1. What was my average annual return over the last 1, 3, and 5 years?
2. Have I performed better or worse?
3. What is the ideal target for my portfolio?
4. Have I created my own Risk Management Formula to help protect my assets in case the economy or markets crash?
5. Am I receiving the right reward for the risk I am taking in my investment?
6. What is my set risk-adjusted return?
7. Am I very sure that this is the best thing I am doing with the resources I have worked had to acquire?
8. How much in total am I paying annually in form of fees? Is it worth it?

Make sure that you answer all these questions honestly. If you discover that you’re not 100 percent confident in your answers, then you may need a custom financial plan.

Common Financial Planning Issues

The most successful investors know how important it is to have a well thought out and long-term financial plan. Almost everything requires a plan; even a pilot wouldn't be able to fly an airplane without a well-thought flight plan. Lacking a financial plan is the main reason why people underperform. You need to draft an intelligent financial plan for you to get ahead of the crowd. However, if you have tried in the past to get a financial plan, your plan may have had one or more of the following issues:

- It was a sales pitch to purchase products
- It was a big stack of papers that anyone without a Ph.D. in Finance wouldn't understand
- It was expensive to get your financial plan, but even more expensive to implement it.
- You got more than one financial plan from different financial planners and all of them were different.

Financial Planning is Broken

Money is not only an important tool but also a powerful one that has the ability to influence almost all aspects of our existence. How you choose to integrate money greatly influences your life as it has a direct impact on your psychological well-being, your physical health, and your relationships. It is up to you to choose whether to become a tool for money (I wouldn't recommend) or you can create a plan that will help you to align all important money decisions with your life goals (this is the recommended option).

Unfortunately, most financial planners emerge from the investment and insurance industries, and as a result, financial planning has remained dependent on product-based sales. This explains why all the financial plans you acquired in the past were all different and were sales pitches to purchase certain products.

One of the main problems in the financial planning world is that most financial planners are working in a broken system where the average person cannot tell between a fiduciary advisor and one who doesn't have a suitable financial planning approach. The average investor rarely understands the term "fiduciary," yet it greatly impacts on the type of financial advice and guidance you will receive. A good example is the fiduciary responsibility that a financial advisor has to act with prudence and in your best interests. The suitability rule requires a financial advisor to first know your financial situation and use the most suitable approach to estimate the results in advance before recommending the best type of investment for your case.

How the Advance Planning Approach Works

- It first tests your current financial plan to determine whether it works or not.
- It identifies all the strengths and weaknesses.
- Tests whether your plan works without the need of a financial planner
- It also tests your ideas that you aren't completely sure whether they will work for you.

- Finally, it helps you choose the plan or plans that will work in your favor and that you're comfortable with.

Invest to Enjoy your Golden Age

Who could have predicted that retirement could be depressing? When you think about retirement, you think of independence and freedom to rest for a while after a lifetime of exhausting work. However, the reality is very different for most Americans. According to a recent study, it was noted that more than a third of the entire employee population in the U.S. deals with depression. These statistics aren't shocking; you most likely have heard or know of someone who passed away almost immediately after retirement. The main reason for this is because retirement is a monumental change and it can be stressing if one wasn't well prepared for it.

By planning retirement in advance, you can change your whole life. Retirement can be a time to rediscover yourself, make plans, enjoy your freedom, and make new friends. But you can achieve this only if you are well prepared. Unfortunately, nearly 20 percent of workers that participated in the 2017 Retirement Confidence Survey said that they had saved less than $1,000 for retirement. Another 55 percent had saved less than $50,000 and only 20 percent had saved over $250,000 and even this sum wouldn't be enough for the comfiest retirement. It's clear that most of us haven't set up the money we need to achieve our goals in retirement. Fortunately, through my advance planning approach, I can help you plan properly and choose the most suitable types of investments that will help you prepare to enjoy your golden age, and also leave your children a portion of your wealth.