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MALLARD ADVISORS

Comprehensive Financial Planning & Wealth Management Solutions

THE QUARTERLY MALLARD CALL

Retirement Epiphanies

William D. Starnes

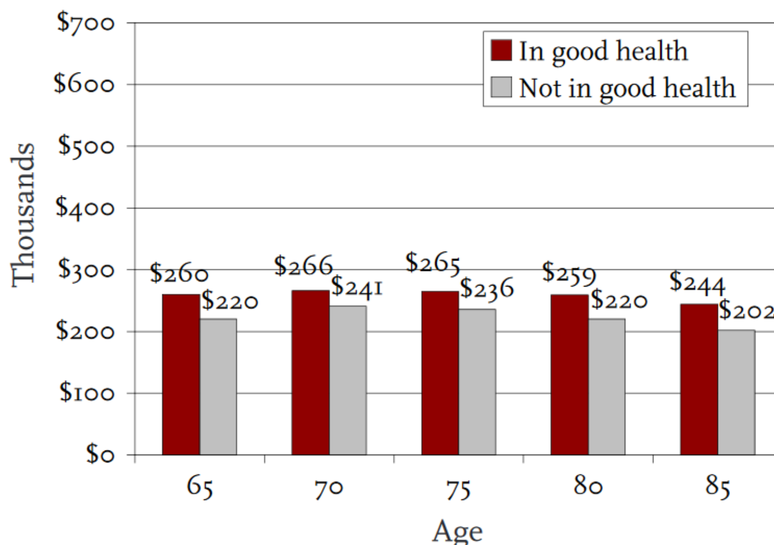
There Are Only One of Two Outcomes

Why do responsible people save and invest? Why do you save and invest? Perhaps you simply feel it is what you should be doing to “prepare for retirement”. Perhaps we have determined together exactly how much you should be saving each year in order to maintain your lifestyle in retirement. However, if you think about it, the purpose of retirement saving really boils down to “ensuring that you are not old and broke”. In other words, you want to ensure that you don’t outlive your money. Otherwise, you might have to live a lifestyle that is only as high as your Social Security benefits. Everyone either outlives their money (bad), or their money outlives them (good). These are the only two outcomes and only you can decide if you want to ensure the latter.

Time and Inflation in Retirement Are Your Enemy

How long will you be retired, and how long will your investment portfolio need to last? Most people have trouble visualizing themselves in their 70’s, 80’s, and 90’s. But the reality is – the joint life expectancy of a 60 year old couple (i.e., the time until the second person passes away) is almost thirty years. That is a long time and it is time enough to ride out the eventual stock market corrections and bear markets. With a retirement that long, it is actually the insidious effects of inflation that should be more concerning than that of the stock market churning. Don’t be pennywise and pound foolish by thinking that fixed income investing will protect your nest egg. In fact, the greater risk with a bond portfolio is the erosion of value by inflation.

Your Health Care Costs Will Be Higher Than You Think



If you are a healthy person with a long life expectancy, you better save even more. Ironically, it is those who are unhealthy that will have less of a need to save due to their premature death. Less time needing health care – especially protracted

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Notices

Travel Plans

Bill will be at a conference for the Alliance of Comprehensive Advisors May 5-7th in Chicago.

Mallard E-Mail Update

Are you receiving our e-mail newsletters (which are different from this quarterly newsletter)? If not, let us know by sending an e-mail requesting to be added to our e-mail newsletter list.

Use ShareFile

When sending confidential information to us, please remember to use the **secure *ShareFile* link** contained at the bottom of each of our email signatures rather than using the attachment function of your email software.

MyWealthWindow

Once we have set up your WealthWindow, you can always access your portal from a link found at the top of our website.

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end-of-life care – means much lower retirement costs.

Most of our clients are affluent, healthy, and have high mortality ages. As such, you must save more in order to pay for this health care. The chart at the bottom of the first page is from the ***Center for Retirement Research*** titled *Does Staying Healthy Reduce Your Lifetime Health Care Costs?* This shows the total lifetime health care costs for those in good health and those in poor health by age.

As you can see, for all ages those who are healthy end up with higher lifetime health expenses largely due to their longer mortality age.

Know Your Path to True Wealth

Do you know if you are on the path to having your money outlive you? Are you on the right track after considering your expected investment returns, time in retirement, and health care costs? How much should you be saving in order to maintain your lifestyle for the rest of your life with a low probability of running out of money? Rules of "dumb" won't cut it. Instead, you should make every attempt to consider every variable including not only the above, but also income, expenses, taxes, future housing, gifts, inheritances, etc. **If you don't know where you are going, you might end up somewhere else**. You don't want your "somewhere else" to be your children's basement or a Medicaid nursing home. Our clients know what path they are on as we calculate the level of their financial security and odds of being on the right path.

Knowing your path is so important because no matter how much money you have, if you are still worried about your financial security, you are not truly wealthy. Wealth is a means to an end and that end is generally related to happiness, growth, fulfillment, and contribution. When you know you are on the right path, you can use your money for ***your ends***. That is being truly wealthy.

Epiphany: a moment in which you suddenly see or understand something in a new or very clear way.

Once Retired, Your Choices Are Limited

Retirees who mistakenly retired too early, didn't save enough, or didn't plan in advance have limited options. If you think about the things you can control in retirement, they are:

- How much you spend.
- How much risk you take with your investments (which impacts your expected long-term investment returns).
- Managing your tax liability.

There are other things that impact your retirement, but they are largely out of your control. They are things like inflation, interest rates, stock market returns, the future of Social Security, and your life expectancy.

Looking at the three things above, the one most people should focus on is the first – how much you spend. This is because your ongoing lifestyle is the single most important controllable factor that impacts your financial security. Once you are retired and are managing your risk and taxes effectively, you are only left with "lifestyle spending" as the remaining major factor affecting your financial security. You must know how much lifestyle spending your resources (i.e., income and assets) will support. In other words, once retired, you are largely locked into your lifestyle, and you better know what that lifestyle should be to ensure you don't spend too much (and outlive your money).

Did you have an epiphany?

You will spend a long time in retirement, and your health care costs will be more than you think. However, by knowing your path to true wealth and focusing on the controllable (especially your lifestyle), **your money will outlive you**. Now, that is the ideal outcome.

Bill Starnes is the founder and senior advisor at Mallard Advisors, LLC

Why Should You Diversify?

Stock markets have experienced volatile returns to start 2016, leading some investors to reevaluate their asset allocation. As U.S. stocks have outperformed international stocks over the last few years, some investors might consider reducing their exposure to international stocks. From January 1, 2010, through February 29, 2016, the U.S. stock market received an annualized return of 11.66% while the international stocks returned 2.26% and emerging markets returned −2.28%. Using return differences over short periods as the ***sole input*** into asset allocation decisions may result in jumping on the gravy trail just as it pulls into the station. We recognize that stocks in international and emerging markets have delivered disappointing returns relative to the U.S. over the last few years. However, it is important to remember that:

1. International stocks help provide valuable **diversification benefits**.
2. **Recent performance is not a reliable indicator of future returns.**

THERE'S A WORLD OF OPPORTUNITY

The global equity market is large and represents a world of investment opportunities. As shown in the graphic below, nearly half of the investment opportunities in global equity markets lie outside the U.S. Non-U.S. stocks account for 48% of world market cap and represent more than 10,000 companies in over 40 countries. A portfolio investing solely within the U.S. would not be exposed to the performance of those markets.

THE LOST DECADE

We can examine the potential opportunity cost associated with failing to diversify globally by reflecting on the period from 2000–2009. During this period, often called the "lost decade," the S&P 500 Index recorded its worst ever 10-year performance with a total cumulative return of −9.1%.

However, when you look beyond U.S. stocks, conditions were more favorable for global stock investors as most asset classes outside the U.S. generated positive returns over the course of the decade (see **graph and table at the top of the next page**).

Expanding beyond this time period and looking at performance for each of the 11 decades starting in 1900 and ending in 2010, the U.S. market outperformed the world market in five decades and un-

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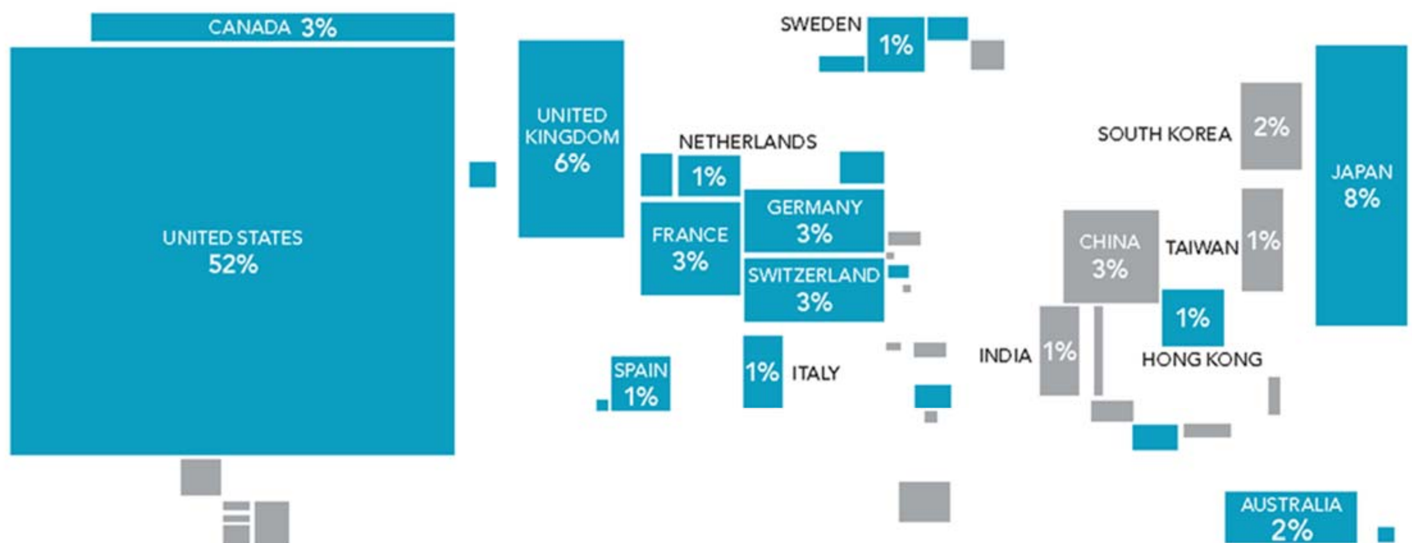
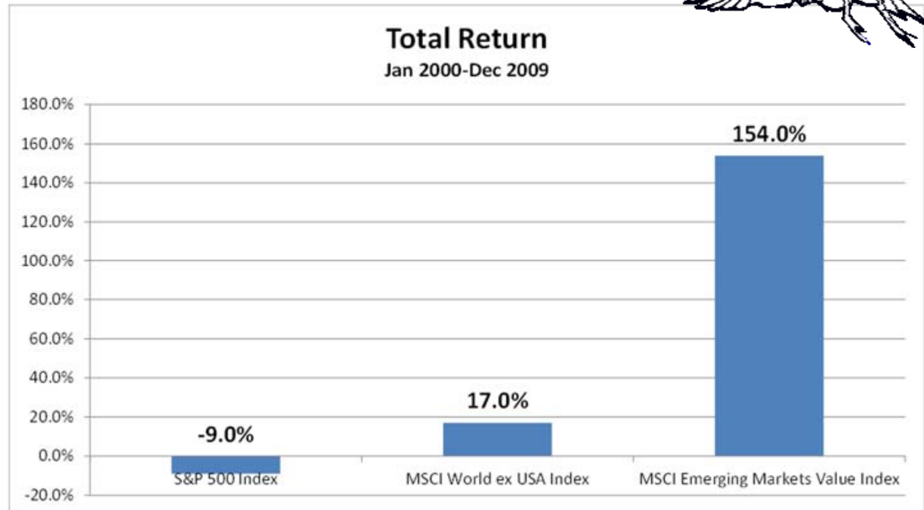


As of December 31, 2015. Market cap data is free-float adjusted from Bloomberg securities data. Many nations not displayed. Total may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. China market capitalization excludes A-shares, which are generally only available to mainland China investors.

derperformed in the other six. Also, from 1973-2015, the S&P 500 performed better than a globally diversified index portfolio on an annual basis – **17 times**. However, it performed worse **26 times**. This further reinforces why any investor should desire a global allocation. By holding a globally diversified portfolio, investors are positioned to capture returns wherever they occur.



A DIVERSIFIED APPROACH

Over long periods of time, investors can benefit from consistent exposure in their portfolios to both U.S. and non-U.S. equities. While both asset classes offer the potential to earn positive expected returns in the long term, they may perform quite differently over shorter cycles. Since there is no reliable evidence that anyone can rotate their portfolio through these countries in order to profit, a better approach (at least for the bulk of your portfolio) would be to maintain global exposure which can provide both diversification benefits as well as potentially higher expected returns.

Market Returns

The first quarter of the new year has brought positive returns in many of the market asset classes which means that investors survived (for now, at least) the worst start to a calendar year ever for the U.S. stock market.

The easy call at the beginning of the year would have been to bail out of energy and emerging markets as they continued their slump (see the article on the prior page). However, these ended up being the asset classes that have had the strongest returns not only for March, but this year to date. The act that might feel the best in the short-term is rarely the best for you in the long-run.

Our mission as investors is to hang on and allow the millions of workers who get up every morning and go to work to do what they do best: incrementally, hour by hour, day by day, week by week, grow the value of the companies we own with their efforts. Investors will sometimes flee stocks, driving their prices down, but for the long-term, the returns on your investments are driven by the underlying value that is created in the offices, cubicles, and factory floors all over the world.

Think of it another way, ***stocks are the only asset class that captures human ingenuity.***

Total Return as of 03/31/2016

	March	1st Qtr	Last 12 Months	Annualized 3 Years	Annualized 5 Years
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**					
60% Equity / 40% Bond	5.4%	2.1%	-1.5%	4.7%	5.1%
STOCKS					
Larger-Cap	6.8%	1.3%	1.7%	11.7%	11.4%
Smaller-Cap	8.4%	1.0%	-7.3%	8.4%	8.6%
International - Developed Mkts	8.2%	-0.2%	-8.2%	0.7%	0.6%
International - Emerging Mkts	13.0%	5.3%	-12.8%	-4.5%	-4.3%
Real Estate	10.4%	6.2%	3.8%	10.2%	11.6%
Inflation Hedges*	10.1%	5.3%	-17.4%	-8.1%	-7.2%
BONDS					
U.S. Investment Grade Bonds	0.9%	3.1%	1.7%	2.3%	3.6%
Global Bonds	0.7%	3.5%	2.4%		

** Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for **"Natural Resources"** is used.*

*** The portfolio is represented by the DFA Global Allocation Fund (60% Equity / 40% Bond)*