



In Come the Boomers

Todd Brand, President

In April, I spent several days in Florida at a conference with hundreds of other advisors from around the country. As is often the case, we can't seem to help but ask about the dynamics of each others' firms. It's kind of like going into the clubhouse after a round of golf, everyone asks about the game. Only, in our world, it's "how much do you manage, how many clients, what's your target market, what's your minimum account, how's your performance, what strategy do you subscribe to, etc." By the end of the third day, I had come to a deeper appreciation of something valuable. We are incredibly blessed to have you as a client. As I described our firm and you (confidentially of course), I heard over and over again how impressed other advisors were by the demographics of our client base and even more so by the kind of relationship we have with you. It's easy to get a little prideful. This has nothing to do with the title of this article, but I wanted to take a moment and let you know how much we enjoy and appreciate our relationship with you.

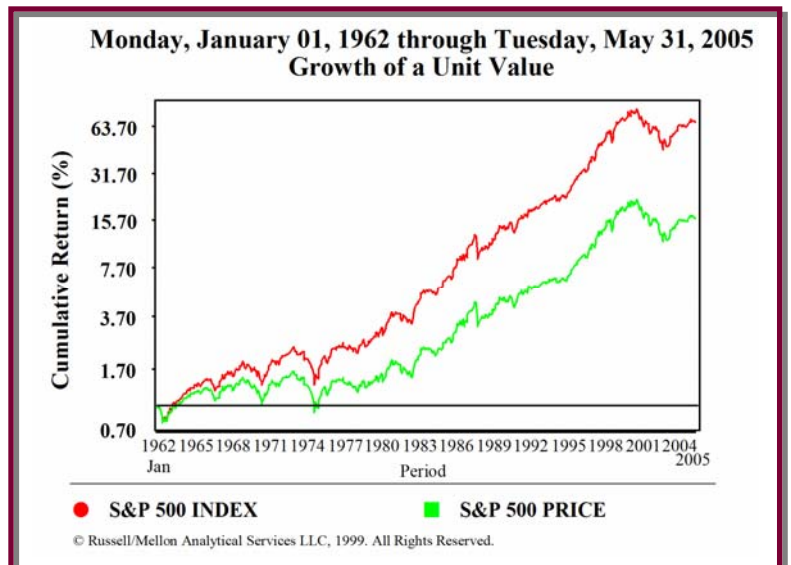
Now, on to business. At the same conference a common theme, most notably articulated by Chip Roame of Tiburon Strategic Advisers, suggested the investment world is in for a globe-changing confluence of economic events. Baby-boomers have begun retiring in mass and are predicted to free up assets from their corporate retirement plans in record amounts as they roll those assets to their IRAs. Mr. Roame suggests that assets available for management will be moving from 7 Trillion (US) currently to 20 Trillion (US) in the next 9 years. Wow! Just so we all know what 20 trillion looks like....\$20,000,000,000. The one overwhelming desire of these retirees is the lifetime generation of "income" to provide for

their retirement. A cursory reading of many current financial publications will prove that the investment community has caught wind of this fact and is re-titling a good number of their strategies and fund offerings to include the word "income."

I want to take a moment to put that word in its proper context. Income is ONE of the components of a lifetime investment return. Over the last 43 years, 1/3rd of the 10.3% annualized return on US stocks has come from dividend income. The remainder of the return has come from price appreciation. (See the chart below



which shows the growth of the S&P 500 Stock Index both gross and net of dividends since 1962.) Obviously, almost all of the return on fixed income products has come from "income" (in the form of interest). From our perch, retirees seeking lifetime "income" are well served to consider both fixed sources of income (bonds/annuities) along with variable sources (equities/REITS).



Here's a quick example for discussion purposes. Suppose I have a fixed source of "income" that, at a 5% yield, would produce \$10,000/month in income for the next 30 years. This sounds quite appealing and is not terribly challenging to implement. I might buy a 30-year treasury bond or an income annuity that could potentially do just that. Several issues arise though. First, this income may be fully taxable at my ordinary income tax rate. Let's assume 30% for discussion purposes. This leaves me with \$7,000 after taxes. Second, this income may meet my needs today, but in the 30th year, after erosion by inflation, that \$7,000/month will only buy about \$2,900 worth of stuff. This is at a 3% inflation assumption which I deem to be a conservative estimate. Third, if I have a one-time cash need, a new car for example, I can't touch my principal without directly cutting my future income. In other words, there's no profit to take. Lastly, if it is an "income annuity" that I use to generate the income, chances are it dies with me (or at some period certain) so while I might live to be 140 and get the better of the insurance company, I might also expire before my natural life expectancy and my heirs get the schnitzel.

Conversely, let's say that the income (maybe a better description would be cash flow) generated from a balanced portfolio of stocks and bonds does not fully meet my current need for cash. I might then have to sell a little bit of something (possibly something with a large capital gain) to generate the additional funds I need. Is this so bad? Let's think about it. Capital gains tax rates are generally about 1/2 of income tax rates and if I do have a shortened life expectancy, much/all of those gains might receive a "step up in basis" which then wipes out the capital gains tax due on those assets for my heirs. Additionally, if I adhere to the strict discipline of buy low/sell high, I might logically be able to pull only profits off of our portfolio to help support our lifestyle which would then allow under-valued assets a chance to recover.

Most importantly, in my opinion, is an even more basic fact. The dividend yield from equities has generally been appreciating in dollar terms by more than 6% per year over the last 43+ years. This is the key ingredient that purely fixed income investors frequently overlook. Here's the point: Having a stable source of lifetime income rapidly loses its

appeal if it is not a growing source of income and if it is taxed excessively. Hence, our conclusion is that when an investor is living off of their portfolio, their portfolio must remain living off of the global markets. This, we believe, provides a higher probability of maintaining a growing stream of income over their retired lifetimes. These lives in retirement are now nearing 25 years in average duration which is a long time for a portfolio to have to work.

To bring this discussion in for a landing, I would conclude with the following:

1. "Income" is only one source of cash in retirement.
2. Income is taxed at a higher rate than long term capital gains.
3. Income-producing securities are generally lower/slower growth securities.
4. Inflation erodes the value of a fixed stream of income.
5. Annuities are generally not "estate tax friendly" and are generally more expensive than alternative investment types.
6. Annuities convert what would otherwise be capital gains into ordinary income for tax purposes.
7. Success in retirement generally demands a growing source of cash flow more than a stable source of income.
8. Having a highly diversified portfolio will generally offer investors greater flexibility in determining where to get their cash for their retirement needs.

We are quite passionate about this topic and will be elaborating on our thoughts as we meet with you during the year. If you know someone in or nearing retirement that has their eye on only one of the important sources of lifetime cash flow, namely income, we'd love the chance to change their perspective and their future.

Warmest regards,

Todd H. Brand
President

Total Picture Part II: Maximizing Your Wealth

Madaline Creehan, Vice-President

When advising clients on a suitable rate of withdrawal from their portfolios during retirement, we face the challenge of recommending a level of withdrawal that could be less than possible, often less than desired, but within parameters intended to transcend the retirement years. As a general rule, when retiring in your early 60s, a gross portfolio withdrawal rate of 3%-4%, increasing annually by inflation, has been found to be a generally prudent strategy. Although maintaining one's current lifestyle in retirement ranks primary for many retirees, achieving that goal is often challenging, and secondary to outliving your savings. This brings to mind the old adage, it's better to be safe than sorry. However, a recent article by Jonathan Clements in the Wall Street Journal suggested that our "general rule" could be too conservative.

Mr. Clements's described a new study by certified financial planner Jonathan Guyton that suggested retirees may be able to withdraw as much as 5.8% initially from a balanced, diversified portfolio, which included a 10% allocation to cash. Based on historical returns, Mr. Guyton found that retirees could generate 40 years of income while surviving brutal market conditions, such as high inflation and a steep market decline early in retirement, if they follow his three rules.

- If your portfolio loses money during the year, you cannot give yourself a raise the following year, not even to compensate for inflation. Your portfolio's beginning of the year value must be greater than last year's beginning value plus the total of your withdrawals for that year.
- No matter how high inflation gets, your maximum annual increase is 6%.
- You have to avoid selling hard hit stock funds. Instead, each year, start by lightening up on winning investments.

This study also relied on "rebalancing" appreciated assets to cash rather than reinvesting in depreciated assets, and being willing to liquidate bonds below their target allocation if equities underperformed for a period of time.

The article does acknowledge the fact that this strategy is based on historical returns and continues to alert readers that "if we get wacky markets, miserably low long-run returns, you may have to withdraw less than Mr. Guyton suggests." He goes on to say that because the first and second rules will occasionally limit spending increases, there's a chance that retirees who use Mr. Guyton's strategy will receive less total income over 40 years than if they had started with a lower initial withdrawal rate but got inflation increases every year.

For us, the study touches on a recurring challenge we face in providing retirement planning counsel. That being, by adhering to a 3%-4% withdrawal rate, is the retiree sacrificing a more enjoyable lifestyle in retirement than is possible? Would a 5.8% rate deplete the portfolio sooner than expected? Although Mr. Guyton's strategy sounds appealing, the risk involved could be considerable since past performance is not indicative of future performance. More importantly, could his strategy be taking too much risk at a time when the possibility or the opportunity to re-enter the work force no longer exists.



These are the challenges we face with you. Our primary objective is to help you reach your primary objective. This article will provide some interesting discussion for investment reviews with you in the coming months. We look forward to having that conversation.

As always, we will continue to proactively evaluate and assess the value of new developments within our industry whether it be retirement planning, investments, taxes, or estate planning and integrate those concepts that we or your other advisors believe could enhance your situation.

**Ladies, Please Read My
Announcement at the
Bottom of Page 4!!!!**

Get a Free Copy of Your Credit Report

Phil Daniels, Investment Consultant

Free copies of your credit reports are available to most of you now and will be available to the rest of you soon. The rollout schedule is:

Western States	December 1, 2004
Midwestern States	March 1, 2005
Southern States	June 1, 2005
Eastern States	September 1, 2005

Credit reports are maintained by the three nationwide consumer credit reporting agencies: TransUnion, Experian, and Equifax. You can request your free copy from each of these three agencies online at www.annualcreditreport.com, by phone at 1-877-322-8228, or by mail at:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

So why should you request a copy of your credit report? One reason is to know what other people learn about you when they request a copy of your report. A second reason is to confirm the accuracy of the legitimate data it contains. A third reason is to monitor for identity theft, the use of your identity by another party to gain access to your finances. Identity theft can result in an individual



getting credit in your name with no intent of meeting the repayment requirements. This could result in a negative item on your credit history that you would have no way of knowing about.

If you find something on your credit report that is inaccurate, it can be corrected by providing a written challenge to the credit reporting agencies.

Detail the information that is wrong and explain what is correct. If you can provide documentation that supports your claim it could be helpful to your case. The agency is required to provide you in writing with a summary of their findings. If the investigation results in a change to your credit report they will also provide you with an updated version of your report. If that doesn't resolve the incorrect data, you can then challenge the creditor.

Dealing with the process of correcting inaccurate information can be tedious. I know, I've been through it. But having that data removed can result in a higher credit score which may result in lower interest rates on borrowings. We encourage you to request copies of your credit reports. You may be surprised by what you see.

Lunch & Learn – For Women Only

Ladies, some of you have expressed an interest in attending an informative seminar on the basics of investing. For those that are interested, I will be hosting an informal meeting later this year to explain the terms and concepts we frequently discuss at investment reviews, and you will have the opportunity to ask questions that you might have been hesitant to ask. My primary purpose is to increase your understanding of your financial situation, raise your level of confidence, and assure you that Brand Asset Management Group will always be there for you. If you are interested in participating in a focus group to plan the content of this session, please give me a call.

I look forward to seeing all of you!
Madaline Creehan

Contact Information

Brand Asset Management Group
16640 Chesterfield Grove Road
Chesterfield, MO 63005
(636) 532-7333 Phone
(636) 532-2551 Fax

Todd Brand	tbrand@brandamg.com
Madaline Creehan	mcreehan@brandamg.com
Phil Daniels	pdaniels@brandamg.com
Jason Akridge	jakridge@brandamg.com
Cindy Dolniak	cdolniak@brandamg.com
Stacy Accardi	saccardi@brandamg.com