REINVENTING Retirement
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Hit the Big, Slow Pitch

With investing, patience is sometimes the best strategy

Brad Pitt plays Oakland A's general manager Billy Beane in "Moneyball,"* a baseball film that's not really all that much about baseball. It's really about a manager who goes against the traditional tide of players who bunt, steal bases or rack up high batting averages—in favor of guys who can simply get on base. Beane's novel approach sparks an all-out rebellion within the team, but then the A's start winning. And winning.

In baseball, being disciplined and playing to your strengths are key to getting to first base. Investing is very similar. It's not so much about picking a fund manager who knocks the cover off the ball year after year. It's about getting in the game. Staying focused and patient. And waiting for the big, fat pitch.

Here are five pointers that apply equally to retirement planning, or to baseball:

1. **Step up to the plate** – Make a commitment to yourself to contribute as much as you can to your retirement account. This may help you reach your long-term goal of financial independence.
2. **Make the most of the opportunity** – In investing, time is your friend. Use the power of regular contributions and compounded returns to build your nest egg. If you earn an annual bonus, consider saving half.
3. **Don't get distracted by your emotions** – Ignore the crowd. Markets can go up and down quite a bit day-to-day or month-to-month. But historically, over longer periods of 10 or 20 years they have almost always trended upward.[1]
4. **Look over every pitch, because they're not all the same** – Even between 1999 and 2010, when the broad U.S. stock market as measured by the S&P 500 was basically flat, other asset classes such as mid-cap stocks and emerging markets stocks did pretty well. It's important to spread your investments around the field, by diversifying your sources of return (typically large cap stocks, small cap stocks, international stocks and bonds).[2]
5. **Go against the crowd** — Beane had to ignore his emotions in the face of statistics that showed that on-base percentages were the key to winning baseball games. Studies of retirement-plan participant behavior have shown that emotions have a bigger impact on success than the market's actual performance.[3] If you let your emotions take control, it's more likely that you'll sell your funds at the bottom and buy back in at the top (the opposite of what a sensible investor does).

Improve your batting average

Unlike investing, baseball is irrational. Batters can make millions of dollars by simply successfully hitting one out of every three pitches (.333). Batting percentages even for professional ballplayers would be considered a near failure in any other field of human endeavor. To stay focused on your retirement objective, consider your personal retirement batting average as the percentage of your salary you set aside each month. By investing a regular amount of your paycheck, whether it's 10, 13 or 17 percent, you can improve your odds of reaching your retirement goals.

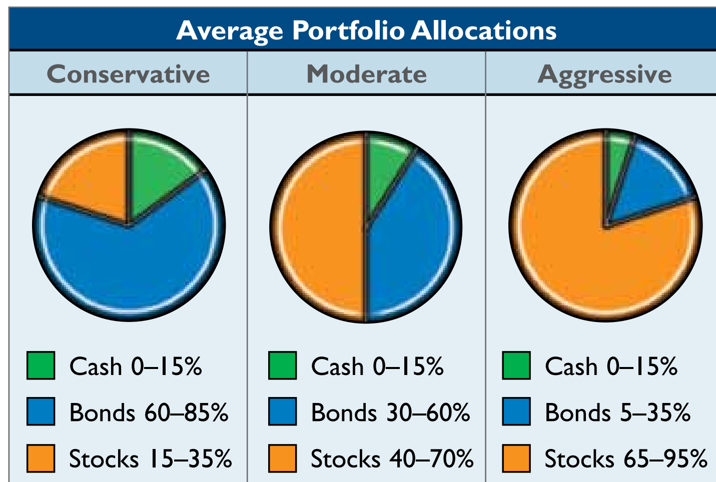
* ©2011 Sony Pictures

Your Second Best Decision You Can Make About Investing

How you choose to invest your funds has a big impact on retirement success

Almost everyone knows that common stocks have generated the best long-term returns for investors. Why then, shouldn't you put everything you have into the stock market?

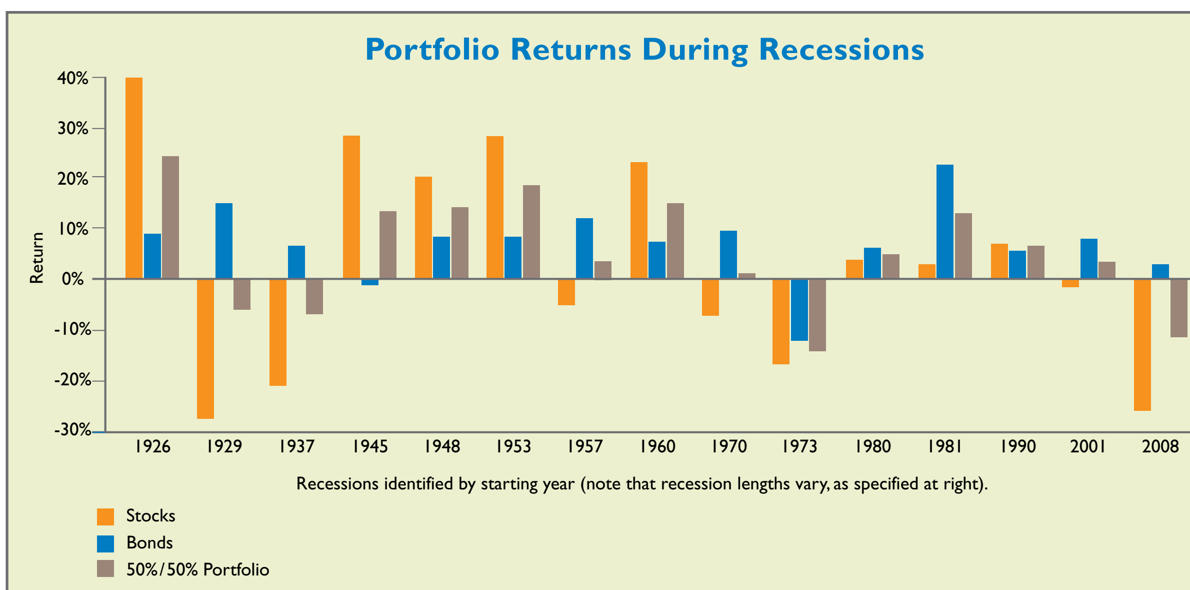
The short answer to that question is that stock prices go up, and they go down. Sometimes in extreme ways. Hard experience has shown that it is very risky to be 100 percent invested in stock funds. Stocks, which are shares of ownership in a business, are subject to a number of risks that can have an impact on your returns. The economy, inflation, interest rates, and market competition can all cause a company's value to rise or fall.



By the same token, you can't avoid risk by being invested 100% in bonds, which historically have generated lower returns than stocks with much less volatility. When interest rates rise, the value of some types of bonds can fall, and vice versa. Instead, it makes sense to diversify your nest egg among stocks, bonds and cash investments, so that unexpected movements in any one asset class are offset by movements in others—potentially smoothing out your returns over time. This strategy is called asset allocation. An asset allocation strategy can help you to accomplish two important goals:

- It can help you ride out market ups and downs
- It can let you adjust your exposure to risk

As the chart below indicates, one of the major benefits of combining stocks and bonds in one portfolio is that it helps smooth out the negative effects of recessions on investment returns, like the one we've just experienced. Research from Vanguard, a well-regarded mutual fund company, shows that when stocks and bonds were combined into an equally weighted portfolio, the portfolio experienced less risk than stocks alone, and still achieved an average annual return of 5.26% in all recessions between 1926 and 2008.



Source: Joseph Davis, Ph.D and Daniel Piquet, "Recessions and balanced portfolio returns," Vanguard research, October 2011. Performance was calculated using monthly nominal asset-class returns adjusted for inflation on the basis of monthly CPI data. Real monthly returns were used to calculate an annualized geometric return for recessionary periods as defined by the National Bureau of Economic Research (NBER). The hypothetical 50% stock/50% bond portfolio is rebalanced each month. Data from the Bureau of Labor Statistics, the NBER, and index returns.

Tips from Everyday Millionaires

Three strategies that have made ordinary workers rich

The 401(k) plan has not been around long enough to show the results of a typical employee's experience over a 40-year career. But there are a growing number of plan participants who have managed to save $1 million or more in their accounts, according to the Employee Benefit Research Institute (EBRI). Admittedly, this group of millionaires is in the topmost 0.2% of all retirement savers,[4] but their experience offers valuable lessons—and at least one warning.

Participation is key. So are high contribution percentages.

One characteristic common to these ordinary millionaires is constant participation in their plan and a high contribution rate, says Jack VanDerhei, director of research for EBRI, a nonprofit, nonpartisan organization that provides independent research on retirement issues. Of course, this is easier said than done. The Great Recession of 2008-09 wiped out many 401(k) plans, especially among the middle class. Only those who held on during the downturn are beginning to see their account values recover. Others weren't so fortunate.

Still, with data based on real participant experiences, we present three strategies that show how it is possible to save seven figures—even on a modest salary.

Sally Saver

Sally is a 25-year-old office manager at a growing engineering firm in the Midwest. She makes $35,000 a year, and socks away 12% of it a year, every year, including her company's matching contribution of 50% up to 6% of pay. Over a 40-year career, Sally earns annual raises of 3.5%, and an average annual return of 7% in her account. At a retirement age of 65, she would have a nest egg of $1.7 million.

Sally's secret is discipline. She sticks with her plan regardless of short-term fluctuations in the market. And because she continues to invest regularly whether the market is up or down, she buys fewer shares when prices are expensive and more when they are cheap, a investment strategy known as dollar-cost averaging.[5]

Don Doright

As marketing chief at a medical devices company, Don earned $450,000 a year before retiring at age 55. Don started his career at his company at age 25, fresh out of business school, when his starting salary was $40,000 a year. Over a 30-year career, with the benefit of steady raises and bonuses, he was able to save $5.5 million for retirement.

What was Don's secret? By contributing the maximum amount allowed each year on a pre-tax basis, and including after-tax contributions, Don put aside 30 percent of his annual earnings toward his retirement plan each year. Don is the kind of person who never had debt, not even a mortgage, and always paid off his credit cards on time. Whenever he got a bonus, he would invest half of it.

Today, Don's plan has a diversified mix of large cap, small cap, international stock and bond funds. Notably, he avoids jumping in and out of his investment funds based on the direction of the market. Obviously, Don is not exactly your average employee or plan participant, but his story shows that it is possible to be successful if you have clear objectives, a good asset allocation strategy and the discipline to stick to it.

Betty Rollthadice

Betty, now age 40 began her career 20 years ago in the HR department of a major Fortune 500 company. She started her career making $45,000 a year. Each and every year she has had a 4% raise. She has contributed 6% of her salary each and every pay check into her retirement account. Her company matches 50% of her contribution up to 6% of her pay. She plans on making these contributions up until she retires at age 65.

Her investment? 100% company stock. Over the past 20 years her company stock has returned 8%. She is assuming that she will continue to average this rate of return up until retirement. At retirement her account could possibly be worth $2.7 million.

Although owning that much in company stock could prove to be a big win, it also could spell trouble if the company's prospects diminish. This is a strategy that most sensible financial advisors and employers would discourage. Having so much of Betty's wealth tied up in one stock could prove to be a disaster if the stock craters when it's time for her to take income.

Past performance is no guarantee of future performance, and there is no guarantee that any of these strategies will result in a similar investment outcome.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Playing catch-up

You've probably thought a lot about where you want to live in retirement and how you'll spend your time. But have you calculated what it will cost? Keep saving as much as you can in your retirement plan (up to $17,000 pre-tax in 2012 for workplace savings plans), since the money you set aside now has time—even a decade—to work for you. If you're 50 or older, you can make catch-up contributions of $5,500 this year to potentially increase your retirement income, if your employer allows them. Combined, that means you can sock away up to $22,500 pre-tax this year.

Corner on the Market

Basic financial terms to know

Durable power of attorney

A durable power of attorney is a written document that specifies the person you've chosen to act on your behalf in private affairs, business, medical care or some other legal issue. It can be activated when you're unable to make decisions for yourself.

Tools & Techniques

Unbiased advice for your financial health

Retirement planning is just one part of your financial life. Looking for advice on buying a new car? The 2011 Consumer Action handbook offers practical money-saving tips on a range of subjects, including online shopping, credit cards, fuel economy, and retirement savings. It's full of sensible advice, and it's free. Visit www.publications.usa.gov.

Q & A

Can I use any part of my IRA for charitable purposes in 2012?

The IRA Charity Rule, which allows people who are age 70½ or older to transfer as much as $100,000 from an individual retirement account to qualified charities without having to report any of the transfer as taxable income, expired at the end of 2011. (Such a donation is not tax-deductible, but the transfer is not included in the donor's adjusted gross income.) Nobody can say for certain whether Congress will resurrect this popular law, but it probably won't get any attention until after the November elections. Better wait until then before donating to your favorite charity.

Quarterly Reminder

Review your bond fund holdings

Bonds have had a strong 30-year run, and it may be time to look at how your funds are positioned in your portfolio. Interest rates are inching up, and this potentially could make the value of your bonds decline at some point in the future (bond yields and prices move in opposite directions). Favoring funds that invest in bonds of shorter average duration may be one way to protect yourself from declining values. Another strategy is to rebalance your portfolio to more of an equal weighting between stocks and bonds if bonds now dominate.

1 *Past performance is no guarantee of future performance.*
2 *Although a diversified portfolio may carry less risk and smooth your returns over time, it cannot protect against market losses. International investing involves certain risks, such as currency fluctuations, economic instability and political developments. Investments in small and/or midsize companies increase the risk of greater price fluctuations. Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Funds that invest in government securities are not guaranteed.*
3 *Source: Dalbar Quantitative Analysis of Investor Behavior (QAIB) Report 2011. Since 1994, Dalbar has studied the effects of investor decisions to buy, sell and switch into and out of mutual funds over various timeframes. The results show that the average investor earns less than market performance.*
4 *Source: Jeremy Olshan, "Secrets of the 401(k) millionaires," SmartMoney.com, January 17, 2012.*
5 *Dollar-cost averaging does not guarantee profit or protect against loss. Investors must carefully consider their ability to continue investing in extended down markets.*

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