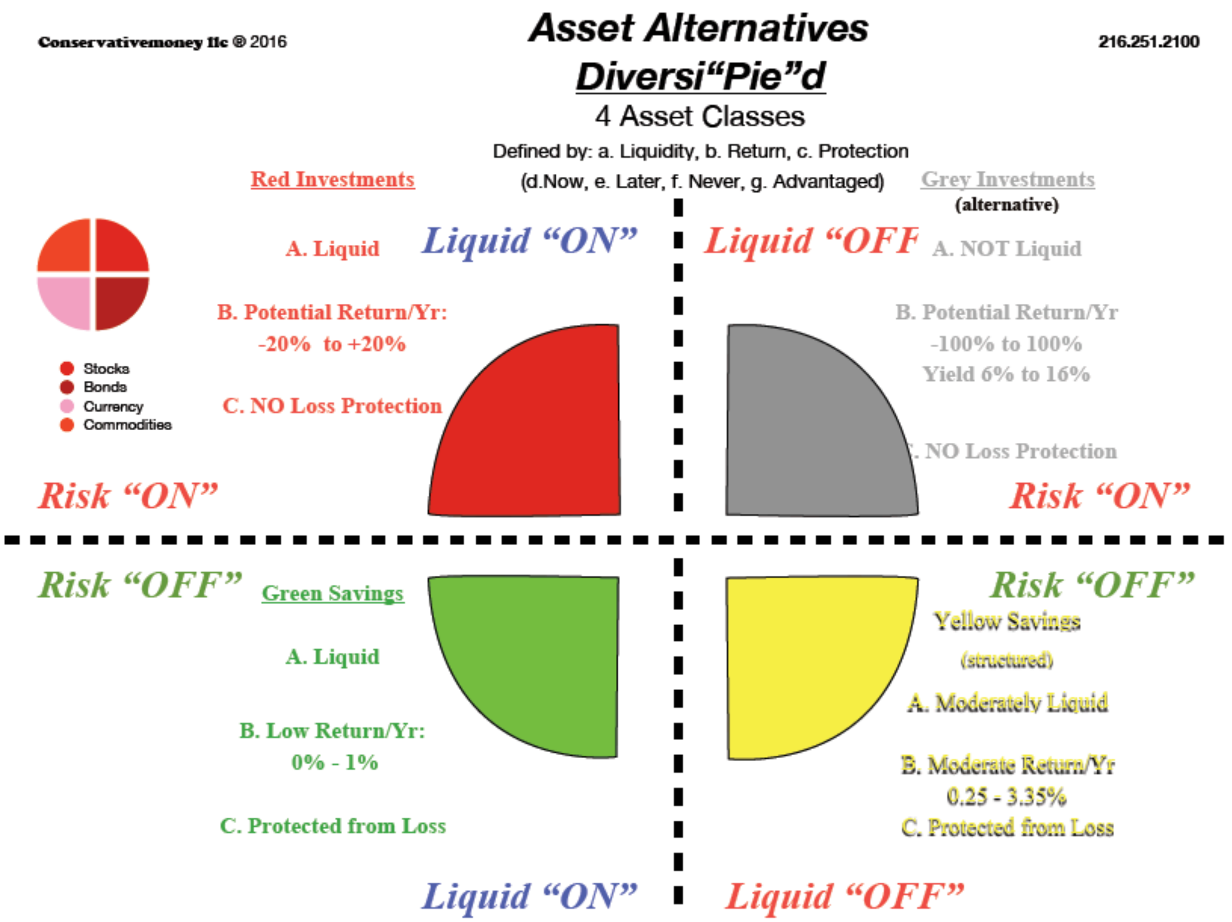
White Paper: Side stepping losses

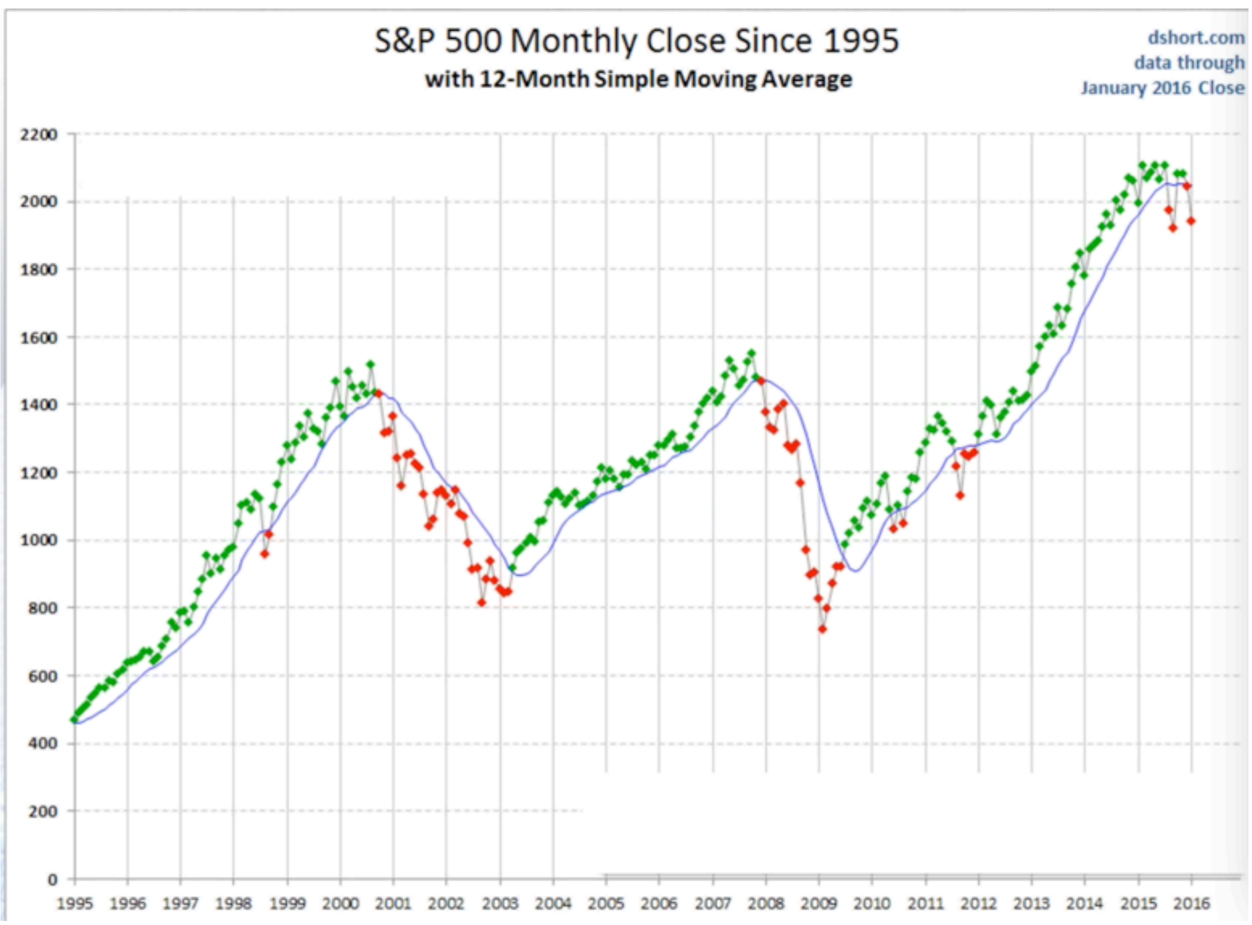
Where are your assets on the investment risk spectrum?

As you can see from the chart below, (the color of money) there are only 4 alternatives you have to "put" your money; (1) "Green" liquid savings "risk off" vehicles, (2) "Yellow" semi-liquid savings "risk off" vehicles, (3) "Red" liquid investment "risk on" vehicles, and (4) "Grey" semi-liquid investment "risk on" vehicles

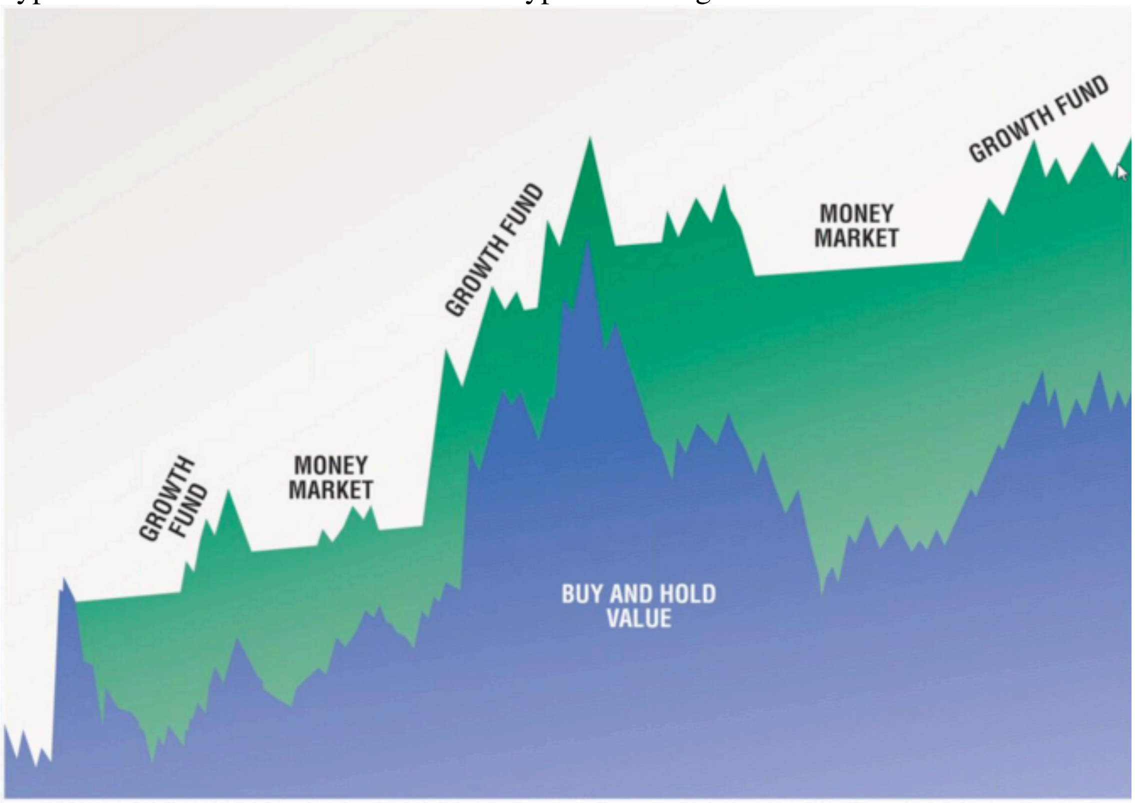


ALL SAVINGS vehicles (aka "Green" and "Yellow") are "RISK OFF". ALL "Red" and "Grey" investment vehicles are "RISK ON". Most people who have retirement assets "put" some or even all of their assets into the "risk on - red money". Red money falls into 4 categories: bonds stocks commodities and currency. Red Money has : 1. The GOOD - these investments are liquid and you have the potential to achieve attractive rates of return, 2. The BAD - there is NO loss protection 3. the UGLY: you can lose money! For example, over the past 50+ years of historical returns, stocks in general outperform the other 3 "red" assets. But, in order to to receive those higher returns, your account would have also had some negative returns in some years. The risk that you are taking by investing in the stock market is that you may lose money. As we covered in White Paper #3, this is not as much as a problem when you are working and making contributions, but when you are retired and taking distributions, the result of a negative rate of return sequence devastating ; you can run out of money.

Many of our clients who are retiring tell us that they like the good part of Red Money, but are concerned about loosing money - so they often ask us “Can I reduce the “Bad” and the “Ugly” of Red Money? Can I reduce my downside risk?” And the answer is a definite “Maybe”! There are 2 ways to own Red money: Passive and Active. Passive is also called “Buy and Hope” - you buy an asset, hold onto it, and do not sell it in the hope that it will go up during the time you own it. Active is when you buy an asset, but watch it and if it starts to depreciate, you sell the asset. As a hypothetical example, lets look at the chart below and contrast the two management styles:



A Passive manager would do nothing this entire time, and the active manager would sell when the prices are red, and buy when the prices are green. The active manager in this case is relying on "technical" analysis for the trade decision. Graphically, Below we graphically show you a hypothitical difference between the two types of managers:



Past performance does not guarantee future results. This is a hypothetical illustration only and its performance is not indicative of any particular investment strategy.

You could also add "tactical" analysis -- that means green dots you own the S&P 500 (chart on the previous page), but when prices are red you own another asset - either a different "red" money asset (of which there are 4: bonds, stock, commodities and currency) or money market (like the hypothetical chart above shows). What is NOT hypothetical, if you sell one red asset to buy another red investment asset (or own multiple red assets), you are <u>NOT</u> REDUCING your risk, you are merely TRANSFERRING your RISK to a different red investment vehicle. The only way to reduce your risk is to BOTH reduce your red investment vehicle ownership and INCREASE your savings vehicle ownership like the above chart does when by moving into "green" money markets.

While neither the passive nor active type of assets management can guarantee positive rates of returns, active management may offer the investor an opportunity to manage and possible reduce their volatility risk simply because active managers are allowed to own "Green" or "Yellow" money.

While knowing the difference between active and passive types of management can be helpful, please keep in mind that the type of asset management you employ represents ONLY 20% of your money elections. For a comprehensive answer to the question “CAN I RETIRE?” or “ HOW MUCH MONEY DO I NEED IN RETIREMENT?”, you need to integrate ALL “5 Pillars” of your retirement income sources:

1. Personal Assets (diversi”pied” by Asset Class, Investment and Taxation)

2. Retirement Assets (diversi”pied” by Asset Class and Investment)

3. Social Security (Maximize Claiming Strategy Report)

4. Employment (integrated with Social Security Taxation)

5. RMD’s (integrated with Alternative Tax Advantaged Investments)

Many know “What” to do with retirement assets, we know not only “What” to do, but also “When” to do it!