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## *What we've learned:*

**Take a phased approach to investment planning for retirement.**

**Boring old bonds turned in a most respectable performance for the decade.**

## **Lessons from 2009**

This has been a year of both ups and downs, of sadness and joy.

My stepfather passed away this year back in October. He was 98 and had lived a long and active life. Born a year before the Titanic sank, he graduated from college during the Great Depression and served with distinction in World War II, escorting convoys across the North Atlantic and then participating in almost every major amphibious assault across the South Pacific. But it was in his years of retirement that I learned or reconfirmed fundamental lessons about life in retirement which help me advise clients preparing to navigate through this same phase of their lives.

Traditional financial planning formulas treat retirement as a single continuum beginning with a calculation of the amount of money needed on the day of retirement to support income needs throughout retirement until death. Expenses are assumed to grow every year with increases allowed for inflation. For a lengthy retirement, this calculation leads to a very large target portfolio which only the truly wealthy have a chance of achieving. (Most of the software used in financial planning is produced by investment management companies like Fidelity and Vanguard who have a vested interest in having their clients build very large portfolios for them to manage.)

The reality of retirement income needs tends to be very different from the one built into most financial planning software. Since my mother and stepfather were married and in retirement for over 20 years, I was able to witness what a more realistic retirement looked like. In the early years of their retirement they enjoyed lots of leisure travel with trips to Europe and cruises to the South Pacific, Alaska, and Bermuda. They maintained a home in Georgia and a vacation condo in Florida. They visited family spread throughout the United States and dined out with their friends frequently. In short, this was an expensive lifestyle and the demands for income were quite high.

At some point, however, most retirees have taken all the cruises they want. Travel back and forth among multiple homes becomes somewhat inconvenient. At this point retirement lifestyles tend to down shift to a less expensive level. This certainly happened with my mother and stepfather as they sold off real estate and moved down here to Jacksonville to live in a very nice retirement community where they enjoyed a comfortable, but less expensive, lifestyle with new friends from their own generation.

Eventually, the physical infirmities of old age begin to limit expensive outside activities almost altogether and then the expenses of daily living consist primarily of shelter, food consumed at home, and Medicare deductibles and co pays. Specialized strategies to provide long-term income security and long-term assisted living financing may come into play in this phase as the trend of increasing longevity can extend this phase for quite a long time.

Taking this phased approach to investment planning for retirement now allows me to help clients make more realistic choices which overall tends to require less wealth than traditional financial planning suggests and is therefore much more achievable with reasonable saving and investment goals and without exposing their financial future to unnecessarily high investment risks along the way. Since retirement planning is not a "one size fits all" process, the specific tools and strategies will vary for each client according to their personal situation and goals.

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### *More of what we've learned:*

Current cash flow and avoiding the worst of the downside is more important than catching every ounce of the upside.

Daily assessment of market risk and careful selection of securities has been a productive strategy.

Continue to employ some defensive hedges.

Eternal vigilance is the price of victory.

Family puts a bright light on the world and represents all of our best hopes for the future.

The past year was truly challenging most investors. After a 38 percent drop in 2008, the stock market indexes continued to fall in January and February and finally bottomed out in early March at levels not seen since 1997. A strong rally then ensued, taking the markets back up dramatically to close the year at levels last seen in 1999. Since we are ending this year at market levels almost unchanged from 10 years ago, it's been a bit of a lost decade for buy and hold index investors. The favorite alternative to the stock market for many folks has been real estate, but even that asset class has been beaten down pretty dramatically since early 2007. In the end, boring old bonds turned in a most respectable performance for the decade, proving once again that current cash flow and avoiding the worst of the downside is more important than catching every ounce of the upside in a market rally.

While "buy and hold" and index investing may not be dead, daily assessment of market risk and careful selection of securities has been a productive strategy for achieving financial goals since 2000. With economic forecasts all over the lot, it's clear that cautious risk management still makes sense as we go forward. Bonds have done well, but are showing signs of overvaluation. So we've been employing some defensive hedges with special exchange traded funds that tend to move up when bonds move down. If the economy falls back into deeper recession, we can expect the markets, which are pretty calm at the moment, to get really volatile again. It's prudent to hedge against this possibility, too, also with specialized exchange traded funds. Making smart choices with my clients' serious money means reassessing daily the best moves to make to help my clients achieve their goals. Most days, the best move may be to wait and see. In the end, however, eternal vigilance is the price of victory.

This year ended on a most positive note for our family as our only daughter was married just before Christmas in a suburb of Charleston, South Carolina. Friends and family from as far away as California flew in for the event. A wonderful time was had by all. Like starting a new business, starting a new family is the most optimistic of all of life's decisions. No matter how gloomy the economy may look to many economic forecasters, a new family puts a bright light on the world and represents all of our best hopes for the future.

It's with this light in my life and hope in my heart that I thank all of you for your business and your loyalty throughout these challenging times. I look forward with optimism and enthusiasm to the better days that I believe will lie ahead.

Have a Happy New Year, everyone, and a joyous, healthy, and rewarding 2010.

Warm Regards

*Jette*

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