

notes from the assabet

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Retirement by Design

Recently we helped a friend think through the decision to accept a retirement package offer that had come up rather suddenly. The buyout amount will be paid in a lump sum, thus significantly expanding taxable income in 2011. This was an abomination to the accountant with whom she conferred, leaving her agitated about the tax bill. We pointed out that given his area of expertise, his narrow emphasis on reducing the tax burden was appropriate, but it should not drive how she thought about the offer. Rather, we encouraged her to think more holistically, not only about financial issues (marginal tax rates, expenses in retirement and other sources of income) but also about lifestyle, and what she wanted out of life in this next chapter.

The conversation reminded us that our guidance to clients must incorporate more than dollars and cents. As we say in many different contexts, "It's more than just money." Financial decisions invariably involve unique and personal lifestyle preferences.

With the great wave of Baby Boomers hitting retirement age, the financial advisory industry is fixated on helping clients prepare for life after work. Typically, the articles and worksheets focus on financial preparedness: calculating the cost of living in retirement and the required amount of savings to support it. This is our central concern as well and we nag clients to estimate their annual expenses. However, there's a lot more to preparing for retirement than building an adequate portfolio and developing a plan of asset distribution.

Our friend suggested that we write about retirement in our next newsletter.

So here it is:

The financial retirement plan begins decades before retirement when you begin building a nest egg. But in the "pre-retirement" stage, when retirement is about 5 years out and suddenly imaginable, the planning ramps up. Financial preparation now extends beyond the "three-legged stool" (pension, social security and savings) that will fund your living expenses. If you don't have ample resources, and you plan to live on a more limited income, reducing liabilities also is important. Plan to eliminate mortgage and other debts. Also, if you need major house repairs or expensive appliances, consider meeting those needs before retirement.

Determine whether or not you will need to earn some level of income and if so, how you might do that. Perhaps you can work part-time or consult in your own field. With some lead-time, you can set up to do that or even to develop marketable skills in another area that you would enjoy.

This is a time to fantasize, to ask the far-out questions, testing whether or not you'd like a radical departure from your current lifestyle. Living on a boat? Singing in a club? Minimalism?

With time to plan, you can avoid some of the common pitfalls of retirement:

1) After the initial "honeymoon stage," retirees suffer certain losses. Most lose the identity conferred by a work role. You will lose easy contact with your colleagues at work. There is a loss of a routine. You may experience being devalued by a culture that (continued p. 2)



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Retirement by Design (continued from p. 1)

celebrates youth and productivity. It takes planning to minimize these impacts. Think about who you are apart from your job.

2) People who are used to a fast-paced busy schedule may feel disoriented, even bored. Consider all those things you have wanted to do but for the time constraints. Develop hobbies. Research community service activities. Look to do more than to fill time and stay active. A common issue is the sense of lacking purpose. (Macramé is nifty, but so what?)

It's a typical pattern to enjoy an R&R period immediately following retirement but then work back up to the old activity level after 3 years. That may not be what you want. Think in advance about how much structured routine you actually want in retirement. Imagine a lifetime of weekends. Is that for you? Practice sitting still with a book, or with your thoughts. (You're laughing. Some of us can't do it without feeling antsy or guilty.)

3) Your family and friends may have expectations of your new life in retirement. Will your adult children expect an increase in babysitting services? Are there friends who will expect you to be more available? Will charitable organizations expect more volunteer hours from you? Set expectations for yourself in those areas, and consider sharing them.

Some people do this planning in a small circle of friends also in the "near-retirement" stage. You might want to solicit advice from retired friends.

Amazon.com can help with these resources:

[Don't Retire: Rewire](#), Jeri Sedlar and Rick Miners

[The New Retirement: Revised and Updated: The Ultimate Guide to the Rest of Your Life](#), Jan Cullinane and Cathy Fitzgerald

[Shaping a Life of Significance for Retirement](#), R Jack Hansen

[Retire Smart, Retire Happy: Finding Your True Path in Life](#), Nancy K. Schlossberg

[Smart Women Don't Retire - They Break Free](#), Gail Rentsch



These issues may seem far from our area of concern. However, an investment portfolio has no meaning outside of what it can bring to our clients. We work to protect and increase our clients' investment assets so that they can educate their grandchildren, enhance the community through charitable giving, enjoy retirement or whatever else money means to them. It's more than just money to them, so it's more than just money to us.

Cruising

In case, for you, "QE2" is a nickname for the vessel which was retired in Dubai, here's another meaning of recent use. QE, or Quantitative Easing is one more technique used by governments to stimulate an economy in recession. Other methods are lowering interest rates, thus making it easier for consumers and corporations to borrow and invest, and creating public works projects to provide jobs. The US government did both of those in the first year of our financial crisis. They also used QE, a process of buying bonds from banks (using money which they simply "print") thus increasing banks' reserves in the hopes that the banks will redeploy those assets as loans, putting that money into circulation. This should drive rates down on fixed income assets, with a goal of making riskier securities more attractive to investors. Other nations have implemented forms of QE to expand their economy and fight deflation since the early 2000s.

In September of 2008, the US Treasury held about \$700 billion in Treasury notes. The first round of QE was initiated quickly in response to the crisis. The Federal Reserve purchased more T-notes as well as mortgage-backed securities and bank debt, bringing their holdings to \$2.1 trillion by June. This amount declined naturally through maturities. However, in August of 2010, with the economic expansion losing steam, the Fed began talking about QE2. The intention to buy an additional \$600 billion in securities by the end of the second quarter of 2011 was announced in the fourth quarter of 2010. The hope is that banks will be far more inclined to loan out the assets than they were in QE1, and that inflation will not reach too high a level. It's a gamble with hopeful supporters as well as skeptical opponents.

A Davidson "Quantitative Easing" 10/7/10, www.NPR.org, "QE2," www.wsj.com, 11/3/10. B. Butos, QE2?, www.csmonitor.com, 10/18/10



Economic and Financial Review

Any brief recap would paint 2010 as a rewarding and comfortable year, characterized by global economic expansion, temperate inflation, strong corporate profits and at least average investment gains from virtually all financial sectors.¹ At the broadest perspective, it was a year of unusual balances, yet not extremes. Our U.S. economy grew moderately, assisted by an easy money policy, without triggering an inflationary upsurge. In this environment, stock prices rose yet valuations remained reasonable. Financial market volatility remained at historically average levels. The anticipated spike in interest rates didn't materialize. Instead, bond yields fluctuated within a narrow range. Returns were decent for high quality fixed income securities and even better for the high yield issues. Corporate earnings, cash positions and bond issuance all were strong. Those U.S. companies with considerable foreign exposure, enjoyed access to some flourishing economies. Corporations also could take advantage of continued opportunity to borrow at very low interest rates.

Decision-makers proved able at year-end to come to consensus on some key financial issues.

Those headlines mask the tensions felt on the daily level. In the Spring, financial markets globally reflected fears sparked by the European sovereign debt crisis when Greek debt rates soared. A contagion crisis was averted by a rescue plan by the European Union. Economic improvement appeared to stall while unemployment remained stubbornly high. U.S. stocks sank 18% during the summer in response to investor dread of a double dip recession and deflation. The housing market showed little signs of recovery. Aggressive exchange between North and South Korea raised global tensions. By November, Fed Chairman Bernanke announced plans to renew Quantitative Easing to assist the tepid economy. In this uneasy scenario, investors were, in general, wary of stock investing, missing some of the solid gains.

We enter 2011 with moderate economic growth that is not self-sustaining yet still relies on government support. The employment market may be improving slightly but joblessness remains high. Housing still struggles. Some state budgets are in crisis. Sovereign debt issues linger as a potential danger. Countries engage in conflict to keep their own currencies low enough to attract foreign spending. So, there's a lot of room for severe problems. Yet the same was true in 2010.

S&P 500 Stock Index: +15.1%, Russell 2000 Small-cap stocks: +26.85%, MSCI EAFE (foreign stocks) +7.75%, MSCI Emerging markets index: +19.20%, Barclay's Aggregate Bond Index: +6.5%

Will You or Won't You?

The statistics vary slightly from one study to another. But wherever you get your information on the percentage of American adults who have no will, it's shockingly high. It's true even among those with considerable assets to protect. One study found that 43% of those with more than \$10 million in assets are without a will. With no will or trust, state laws dictate the dispersion of property, the distribution of assets, perhaps even the custodianship of children.

Getting a will drawn up or revised is neither arduous nor very expensive, so time and cost don't explain this widespread lapse in responsible management. Rather, like life insurance, considering a will raises the uncomfortable topic of death. 22% of those without wills in this particular study said that they don't care what happens to their money. (After all, they'll be dead....) 46% got no pleasure out of transferring assets to their heirs, saying that their children are spoiled. Others said that they had a hard time finding people to trust. So between depression, inertia or simple procrastination, they neglect to obtain a will.

Often people have a will but have forgotten just how long it has been since it was executed. They also may not consider how much has changed since that old will was drafted or updated. There could be expanded assets, additional children, the arrival of grandchildren, or new charitable interests. A will that has become irrelevant is only marginally more useful than no will at all.

If a long period has elapsed, there may be problems in locating a copy of the will. Lawyers retire and die like the rest of us, and client documents can get lost in the transition. As a part of our interest in our clients' total wealth picture, we encourage them to maintain current wills.

A. Ebering, "Americans Lack Basic Estate Plans," *Forbes* 3/1/10, PRNewswire, "Many Wealthy Americans Have Done Nothing to Protect Assets," 1/10/2010, FindLaw Survey, 12/1/2010 "Most Americans Don't Have a Will."



Rent or Own?

Most of us are well-versed in the rent-or-own tradeoffs when it comes to our cars or dwellings. There are times when rental trumps ownership, and vice versa. However, opportunities to rent rather than buy abound and most of us don't readily consider them. Many of us fill our houses, closets, garages and sheds with purchased items that we rarely use.

What have you rented? Between the two of us at Assabet Advisors, we have rented DVDs, tuxedos, tables/ chairs, ski equipment, cars, apartments, hotel rooms, boats, beach umbrellas, vacation homes, and projectors. That's it! Most of those decisions were no-brainers. But I have a fancy gas-powered edger taking up space in my shed. I edge my many gardens once a season, at best. Often I can't even get the thing started and I resort to the use of the manual edger. It seemed like a good idea at the time of purchase, but with hindsight, an edger is an obvious candidate for rental, along with a dethatcher, aerator and rototiller. I own a tent, camping stove, cook set and lamp that have lain idle in the basement for at least 20 years. If I were to go camping in 2011, I could rent all that and more. I also could rent a canoe instead of cleaning off the one I own and haven't used in 13 years, and *never* used apart from an annual one week summer vacation. Surely you have your own examples.

How about more personal items? Most men have rented a tuxedo, but these days, women can rent clothing and accessories. When, on a rare occasion, I go to a formal event requiring an evening gown, I shop for a dress that I'll likely never wear again. If I calculated the "cost per wear," I'd appreciate the logic in renting from RentTheRunway.com which can outfit me in a designer dress at 80-90% off of the retail price, no cleaning, no having to make space in the closet while the dress becomes outdated. For the celebrity wannabees (I'm not one), BlingYourself.com will rent you a Chopard \$4,960 diamond necklace for \$400 a week. At BagBorroworSteal.com, you can rent a Judith Leiber Bird Cage Clutch for \$145 a week. While you're glamping up, what about Tiffany's Starburst sunglasses for \$43 a week? Would you rent any of these items?

Rent-or-own decisions can be analyzed around practical factors: the cost tradeoff, the amount of potential use, the burdens of ownership or rental. Yet emotional factors play a large part as well. The satisfaction that comes with ownership is very pronounced for some people for many different reasons including security, control, display of wealth, security and personal fulfillment. It's wonderful to be able to say, "ours" about a well-loved vacation home, to be free to personalize it and to imagine family gatherings there far into the future. To many people those rewards are well-worth the expense, the furnishing/maintenance/rental headaches, and the investment risk for a place they can occupy for only a few weeks a year. In another example, some homeowners like to be the one who owns and loans the power washer and massive ladder. There's a sense of security that comes with being well-equipped and not dependent on others. Perhaps the most extreme example of the fulfillment that can come with ownership is the individual who purchases stolen art which cannot be publicly displayed.

I've been told that anything can be rented. Not true, at least not legally. In 2009, rent-a-pet company FlexPet shelved successful operations in the US and the UK in response to strong opposition from animal lovers and legislators. Before that, individuals who were not able to commit to pet ownership yet wanted occasional access to a canine companion (or a chick magnet?) or wished to try out a particular breed, could rent a dog, on the ZipCar model of membership. (The bill banning pet rental, passed in Massachusetts in August of 2008, left open the rental of working dogs.)

What's your rent-or-own quotient? A New Year's challenge: in 2011, rent an item that you have never rented before.

Caitlin McDevitt "A Dog for the Day?" Newsweek.com 7/29/08, "Online Clothing Rental: 30+ Sites," Smartlifeblog.com, 4/14/10, M. Clarke, "Rent Spectacular Bling," cnn.com. 12/28/07.



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