

October 2006 Newsletter

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Why Do Most People Retire Broke?

That is a fact, my friends! Look around.

- How many retirees do you see who REALLY have the same lifestyle they did before retirement?
- How many can REALLY do what they want when they want?
- How many can REALLY afford to get the proper medical and dental care?

You see, it takes money to do this. You can't build up the proper amount of money and assets overnight. Many of the saddest situations I have seen over the last 32 years were people who tried to take shortcuts to financial security. Very few millionaires made their money in the stock market. Even fewer did it in a short period of time.

This month, Pamela Yellen's email newsletter had a quick quiz of 5 multiple choice questions that I thought were really thought provoking.

Try this quiz yourself and let's see how you do. Please don't peek ahead at the answers. Ok?

Quick-Quiz Question #1: How much has the average home in the US appreciated per year, over the last 100 years, after factoring in inflation?

- a. 9%
- b. 5%
- c. 3%
- d. 1%

Quick-Quiz Question #2: If both members of a couple are healthy and are now in their mid-sixties, what's the likelihood one of them will live beyond age 91?

- a. 20%
- b. 35%
- c. 50%
- d. 75%

Quick-Quiz Question #3: Over the last 76 years, how many periods have there been during which the stock market ended up at the same level it was at 16 or more years earlier?

- a. None
- b. 1
- c. 2
- d. 3

Quick-Quiz Question #4: How much of their pre-retirement income will the typical person need in retirement?

- a. 50%
- b. 75%
- c. 100%
- d. Why worry about that? Just move in with the kids

Quick-Quiz Question #5: Does money really buy happiness?

- a. Yes, and the more money people have, the happier they are
- b. Yes, but only up until the point where you have the basic necessities covered, and don't have to worry about things like food, clothing and having a roof over your head - after that, more money doesn't make people happier
- c. No, how much money you have doesn't have much effect on how happy you are
- d. No, in fact, money can complicate your life and make you miserable

Now let's see how you did. Here are the answers with comments for the questions:

Question #1: I'm betting most readers are going to get this one wrong and that the real answer will surprise you.

After factoring in inflation, the average home in the U.S. has actually appreciated only around 1%!

As "Fortune Magazine" reported in its May, 2006 issue, "Historically, residential real estate has outpaced inflation by a little more than a percentage point each year - hardly enough to pay for two (or three) decades of sunset years on sun-filled decks."

Further support for this can be found by the research done by economic and trend analyst, Robert J. Shiller, author of the best-selling book, "Irrational Exuberance."

Shiller traced the long-term trend of residential real estate for the 114-year period from 1890 to 2004. Other than two "boom" periods during this time (one of which is the recent one that has already ended in many parts of the country), prices were mostly flat or declining.

In fact, over the 114-year period Shiller studied, real home prices rose an average of less than half a percent per year.

Question #2: If both members of a couple are healthy and in their mid-sixties now, there is a 50% chance that one will live to be at least 91 years old. (Source: American Society of Actuaries)

That's great... unless you planned for your retirement nest-egg to last 'til you're 80.

And, given the trend of increasing life spans, in 10 years, people are likely to live longer than age 91, on average.

But most people base their financial plan on living to be less than 91 years old, let alone the possibility they might live to 100... or beyond.

With so many retirements spanning 30 years or more, a growing number of people face the very real prospect of outliving their savings, according to most experts today. And you don't have a lot of options to correct this situation when you're 85.

Question #3: Since 1930, there have been two periods during which the stock market ended up where it was a FULL 16-17 years earlier!

Who knows HOW long it will take to get back to where we were in 2000? It's already been about 7 years.

How will it affect your plans and your lifestyle if it takes another 3, 5 or 10 years (or more) to get back to where it was?

And, of course, many people were heavily invested in tech stocks, which are STILL down more than 50% from where they were at their peak!

On top of this, there are so many factors that impact the market that are OUTSIDE your control, including terrorist attacks, wars, oil shortages and embargoes, corporations caught cooking the books, and the list goes on.

Question #4: Although financial planning experts traditionally have told their clients to plan to be able to retire on 75% of their pre-retirement income (although I don't know why anyone would WANT to retire at a lower lifestyle), many experts today are saying you'll actually need 100% - or more - of your pre-retirement income.

The reasons: Rapidly rising health care costs and longer, more active lifestyles.

According to the June 2006 Boston College Center for Retirement Research Study, in 2004, the typical older worker nearing retirement had just \$60,000 in 401(k) and individual retirement accounts - a sum that would yield less than \$400 per month in retirement.

And more than half of workers 55 and older have saved less than \$50K towards retirement.

Of even more concern is the fact that almost 60% of workers haven't even calculated how much they might need to live on, during retirement. (Source: Employee Benefits Research Institute)

Maybe people don't do this calculation because there are so many variables they don't know: How long they'll live, how high taxes will be, or how much they'll need to cover skyrocketing health care costs.

Question #5: Does money buy happiness?

Interesting question...

While writing a fascinating book, John Stossel, highly regarded anchor of the TV News Show, 20/20, did some research into the answer to this age-old question.

Not surprisingly, it turns out that people who struggle on a daily basis to survive - put food on the table, clothe their family and put a roof over their heads - are the least happy.

In America, most people say they are "fairly happy," but "they'd be happier if they had more money."

However, Stossel's research revealed that, after the basic necessities are covered, more money does not equal more happiness. A survey of people on Forbes Magazines "richest" list found they rated themselves no happier than anyone else.

(Note: Stossel's book is called "Myths, Lies and Outright Stupidity," and I highly recommend it.)

One thing we DO know is that NOT having to worry about outliving your nest-egg reduces stress and increases your ability to enjoy today and your day-to-day life.

These questions get to the heart of why people fail financially. One of the biggest retirement killers I know is question #1. Why put almost all of your net worth in an asset that has such a low return? But that is what 95% of the world does.

We like to do what everybody else does with their money.

Does that mean that it's right?

I can guarantee you that doing the wrong things will not get you financial security.

My mission is to teach people the right things to do so they have the tools to succeed financially. BOY is one of the basic, fundamental tools for someone to use that will enable them to succeed.

I invite you to join me in using BOY to become financially successful!
IT IS NEVER TOO LATE TO START!

**How to Pocket Every Penny of Interest You
Now Pay to Banks, Finance and Credit Card Companies... and Turn
it into Personal Wealth and Tax-Free Income for Life!**

Alan J. Eckstrand, LLC

Cordially invites you to be our guest at our Bank on Yourself™ Breakfast Workshop

Tuesday, October 31st 8-9:30am

NWCT Chamber of Commerce, 333 Kennedy Drive, Torrington, CT 06790

Seating is limited, so please RSVP immediately by calling Gail at **860-496-1941**. Let us know how many will be attending and the names of your guests. Please do it today, while it's fresh in your mind!

Seminar with Nelson Nash

This past weekend was our first seminar with the founder of the BOY concept, Nelson Nash at the Yankee Pedlar in Torrington. Nelson and his wife, Mary, flew in from Birmingham, AL on Friday morning and we did the meeting Friday night and all day Saturday. Friday night we had a cocktail hour before the meeting and breakfast, lunch and dinner on Saturday. People came from as far away as Long Island and the CT shoreline! We hope to have another one with

Nelson sometime next spring or summer. Depending on you, we may use a location in the Hartford area next time.



Above is Nelson and his wife, Mary, with our clients, Drew and Debbie Wilder. Drew and Debbie had dinner with me, Nelson and Mary on Friday night. They are the Clients of the Year for 2006, so I wanted to do something special. I plan on doing something similar every year to show my appreciation.



Above from left to right is myself, Mary Nash, Gail Embrey, Nelson Nash and Rhiannon Mastrocola. Gail and Rhi are my fulltime staff. Without their hard work, the seminar would have never happened. For that matter, my office could not run without them. The people who came to this one told us that it was time well spent. I hope to see you next time!

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