

# **Income-For-Life**

## **White Paper**

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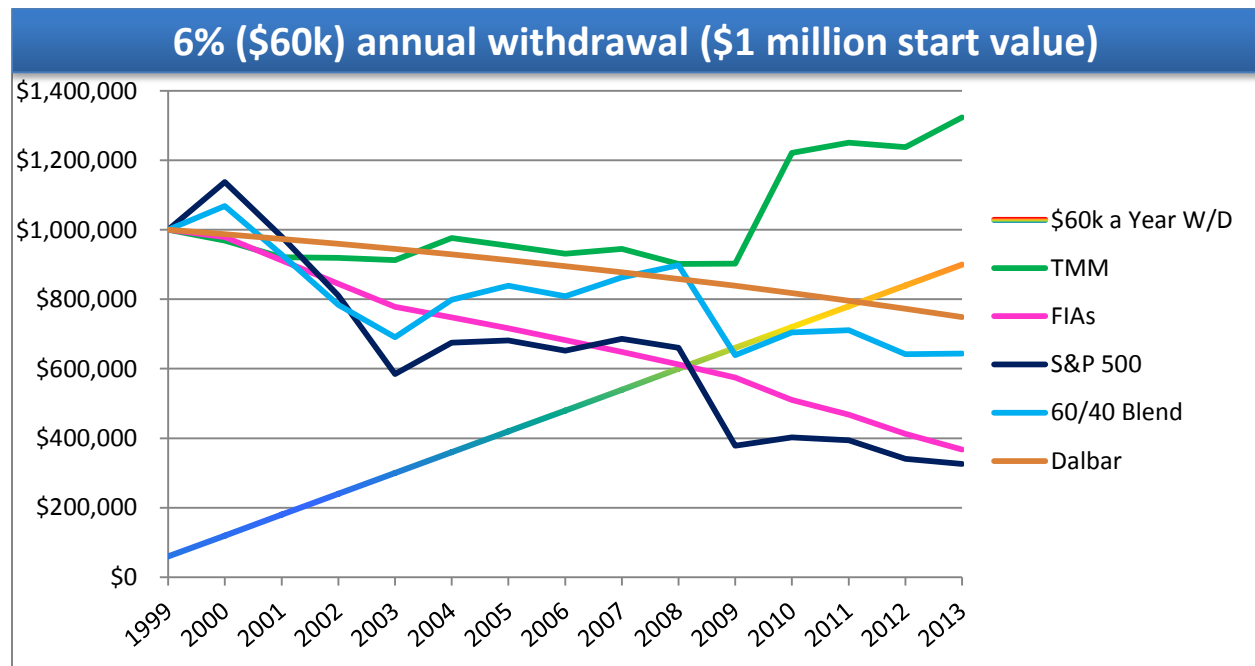
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## Income-For-Life White Paper

Financial White Papers are not always the easiest to understand. My goal with this White Paper is to give readers easy-to-understand charts with detailed information in paragraph form for those who want it. Keep in mind that this Paper is about investment options to *create an income stream for life*. The following chart shows the most common options that investors typically use in an attempt to create an income stream for life.

What do you think of the following chart? Which line do you like best? Could it be the green line on top? What if you knew that the green line was an investment option with **80% less risk than the S&P 500** (the black line is the S&P 500)? I'll let you think about it as you read through the introductory pages that follow.

If just by looking at the following chart you want to learn more about management strategy represented by the green line and how you can use it (and I can't give you a reason not to), please e-mail me at [roccy@nolongeranoption.com](mailto:roccy@nolongeranoption.com).



**Why is this Paper needed?** Simple—income-for-life planning is being demanded by consumers today, and advisors are NOT equipped with the needed information so the best advice can be given to them. Therefore, consumers need to educate themselves so they can make sure that they seek out advisors who can provide them with the “best” tools to create a guaranteed income for life.

**What is “income for life”?** Income for life is when your investments are postured so a predetermined amount of money can be removed from the investments every year for so long as you live. The rub is that the income is supposed to continue *no matter how long you live* (a time frame no one can predict).

**What is “guaranteed” income for life?** “Guaranteed” income for life is when you use an investment that contractually “guarantees” a specified payment every year *no matter how long you live*.

Most in the financial services industry today use a blended/balance mix of investments (bonds, mutual and/or index funds, dividend stocks, etc.) to posture a client’s investments so a specified amount of money can be withdrawn every year for as long as the client lives. While this type of approach or others can look good on paper, history has proven to us that most financial models **fail in achieving the client’s goal** of a stable/predictable income for life.

**What is failure?** Failure is when you **run out of money** before you die due to inadequate investment returns. Failure can also be not passing the desired amount of money to your heirs (so the account doesn’t go to zero thereby terminating the income stream before your death; but at death, the account value is lower or substantially lower than what you want to pass to your heirs).

**Income for life is more important than ever**—volatility in the stock and bond markets has been very high over the recent years. We’ve seen two huge stock market crashes in the last 15 years— **-46%** from 2000-2002 and **-59%** from the highs of 2007 to the lows of 2008.

It’s safe to say that most older people—those in or near the income phases of retirement—are not comfortable with most investments when it comes to the idea of income for life (not running out of money before death). The previous statement may be accurate, but a better statement would be that the vast majority of investors (and their advisors) are **not familiar with all the options** that can be used to create a predictable stream of income for life.

Because of a lack of information on the investments used (the different types, how they would have performed over the last several years, and the risk of each type) in the financial services and insurance industries to create a predictable stream of income for life, I decided to write this Paper.

**This Paper will answer the following questions:**

-What are the available tools the majority of investors can use to create a retirement income every year no matter how long they live?

-Which income-for-life investments are the best for clients of varying ages and goals?

Like my other White Paper (a 53-page Investment Risk White Paper (which, if you have not read, I strongly recommend doing so by e-mailing [roccy@nolongeranoption.com](mailto:roccy@nolongeranoption.com))), I will use real-world math, simple graphs, and easy-to-understand verbage to educate readers.

My goal is always to help readers think critically and learn as much as they can so the ultimate goal can be accomplished, i.e., helping readers be fully informed so they can choose the “best” tools to use for their retirement income.

### **What will surprise you when you read this White Paper?**

-That a “balanced” portfolio for income (i.e., the Modern Portfolio Theory) is NOT a very good platform for income planning (or growth in my opinion).

-That Index funds are NOT good for income planning.

-That FIAs (Fixed Indexed Annuities) are still good options for those who are mainly interested in income (vs. a remainder that will pass to the heirs).

-That using a low drawdown/risk tactically managed platform is the “best” income planning platform taking into consideration all the risks/rewards (this is a surprise to most readers because they have never had this type of platform introduced to them by their advisor(s)).

It’s a bit of a daunting task to put such a Paper together that is in plain English and in a format that is not only understandable but usable. I think I’ve accomplished that, and I hope you enjoy it.

**Format for this Paper**—I’m going to tip my conclusion as to which platforms I like best for lifetime income right in the beginning of this Paper. For most clients, they will want to allocate a significant portion of their money to a truly tactically managed platform like the green line in the chart on the first page of this White Paper. Because that is my conclusion, I’m going to start with an explanation as to why; and then I’ll be comparing other income options to this platform so you can see how they compare.

My second favorite option is a Fixed Indexed Annuity (FIA) that can provide the best “guaranteed” income stream for people in retirement. Therefore, I will cover that second. Following FIAs will be information on the typical investment options advisors recommend. The Paper will conclude with the very interesting numbers from the DALBAR Study.

**Time Frame**—the comparison for every investment option will assume an investor started withdrawing money from their investments using the real-world time frame from January 1999 to December 2013.

**Investable dollars**—I will assume that all examples in this White Paper will start with \$1 million of investable dollars when they started their income stream for life in 1999.

**Side note:** If I didn’t assume an example client already had \$1 million accumulated, I’d have to address the accumulation phase. Most in the financial services industry use the rule of seven, i.e., invested money that earns 7% will double every ten years. The DALBAR Study (e-mail [roccy@nolongeranoption.com](mailto:roccy@nolongeranoption.com) to obtain a copy) proves to us that the average investor earns nowhere near what the rule of seven demands in order to double an invested amount of money every ten (10) years.

What's the best "accumulation" investment is a completely different White Paper than one explaining the best investments used to create a lifetime income *after* an amount of money has been accumulated. This is really what I try to address in my 53-page Investment Risk White Paper (what is the best "accumulation" investment).

I point this out so readers do not lose sight of the fact that income for life is very important; but if you fail in the accumulation phase, your income for life will be significantly less than it could be (and should be if you received wealth-building advice from a good advisor in the accumulation phase).

**Taxes**—while it wouldn't be impossible to write a White Paper that had examples of dozens of different types of people, to do so wouldn't be overly helpful if the goal is simply to educate readers on the viable income-for-life investment options so they can determine if they are using or have been offered the "best" income for life investment options by their advisors (and, if not, I recommend you seek out an advisor who can provide you with the "best" options).

Depending on the investment used to create an income for life, there will be different tax ramifications. Many people use dividend stocks and pay taxes on those dividends. Some will use tax-free bonds to create income. Some will sell appreciated stocks, mutual funds, etc., to create income and short- and/or long-term capital gains taxes. Some will use annuities and will either take a guaranteed income payment from the annuity or will take withdrawals. Both are taxable.

This Paper does not take into account the example client's tax brackets or the taxes paid on the income streams created. While taxes paid are certainly an important factor, to try and deal with taxes in this Paper would mean that it would have to be two or even three times as long.

Again, my goal is to cover the viable options to create \$60,000 worth of income each year for example clients. At some point, I may expand the White Paper to deal with taxes and net out the taxes for various investments for clients in various tax brackets; but that information is not in this Paper.

**Expanded White Paper**—this White Paper has 15 pages of content because I only cover one type of example (6% income based off of a \$1 million base of investable assets). I have an expanded White Paper that provides the same information you will find in this White Paper except I will do so for a 4% and 5% income stream. This is important information because 6% is a bit of an aggressive assumption for a lifetime income stream. Most FIAs won't pay a 6% income stream unless the client is quite old (4%-5.5% is more common depending on the client's age). Six percent is also an aggressive income stream for your typical investment options (as you will see by how low the account values are after a 15-year income stream in the charts within this paper).

*If you would like the expanded White Paper, please e-mail [roccy@nolongeranoption.com](mailto:roccy@nolongeranoption.com).*

**Order of Comparison**—as I stated earlier, I will explain my favorite two options first and then cover the traditional options recommended by most advisors that I’ve listed below.

- Tactically Managed Strategies
- Fixed Indexed Annuities
- Balanced Portfolio (Modern Portfolio Theory)
- Index Funds (S&P 500)
- DALBAR Study
- Variable Annuities\*

### **Tactically Managed Management (TMM)**

What is a good definition for TMM? TMM is simply another term used for active management (vs. passive management). It is not a money management platform you can find on the Internet or in a book. TMMs are the opposite of buy-and-hold strategies. As the DALBAR Study indicates, active investing by those who are not the top specialists in the industry usually does much worse than a passive buy/hold strategy (even in one of my least-liked tools such as mutual funds).

The problem with passive buy/hold strategies is that, when the market crashes like it has twice in the last 15 years (-46% and -59%), your account values tank right along with it.

The TMM platform I use in this White Paper is very unique and not well known. I am using my favorite low drawdown risk manager from the RIA I recommend advisors work with (the RIA has several unique managers). My favorite manager has gone 23 years without a down year and has a 9% net average rate of return (year ending 2013).

So, let’s get to the math of how a client would have fared with my favorite tactical money manager. Remember, I’m using real-world numbers from 1999-2013 (which includes two huge stock market crashes).

Desired income: \$60,000 withdrawals every year for the remainder of the example client’s life.

Starting account balance: \$1,000,000.

Goal: Do not run out of money before death.

Additional goal: Pass the maximum amount of money left to the heirs if possible.

Outcome: After removing \$60,000 a year from the account for 15 years, there is an account balance of \$1,349,856. Not bad for an investment that has 80% less risk than the S&P 500.

	Beginning	Annual	Actual Annual	Annual	Year End
Year	Balance	Withdrawals	Returns	Gains or losses	Balance
1999	\$1,000,000	(\$60,000)	3.08%	\$28,952	\$968,952
2000	\$968,952	(\$60,000)	1.31%	\$11,907	\$920,859
2001	\$920,859	(\$60,000)	6.74%	\$58,022	\$918,881
2002	\$918,881	(\$60,000)	6.24%	\$53,594	\$912,475
2003	\$912,475	(\$60,000)	14.49%	\$123,524	\$975,999
2004	\$975,999	(\$60,000)	4.13%	\$37,831	\$953,830
2005	\$953,830	(\$60,000)	4.17%	\$37,273	\$931,103
2006	\$931,103	(\$60,000)	8.47%	\$73,782	\$944,885
2007	\$944,885	(\$60,000)	1.90%	\$16,813	\$901,698
2008	\$901,698	(\$60,000)	7.25%	\$61,023	\$902,721
2009	\$902,721	(\$60,000)	44.96%	\$378,887	\$1,221,608
2010	\$1,221,608	(\$60,000)	7.66%	\$88,979	\$1,250,587
2011	\$1,250,587	(\$60,000)	3.97%	\$47,266	\$1,237,854
2012	\$1,237,854	(\$60,000)	12.35%	\$145,465	\$1,323,318
2013	\$1,323,318	(\$60,000)	6.85%	\$86,537	<b>\$1,349,856</b>

Final assessment of using the right tactically managed strategies: This is the best non-guaranteed payment investment I've found in the marketplace. Who wouldn't want to use an investment that has **80% less risk** than the S&P 500 with rates of return numbers like you see above (keeping in mind that during this time frame there were two huge stock market crashes and that past performance is no guarantee of future performance).

### **Fixed Indexed Annuities (FIAs)**

FIAs are one of my favorite products in the financial services/insurance industries. Why? Because they have the following benefits:

-a guarantee that the money will never go backwards.

-gains that are locked in on an annual basis which can never be lost (most products lock annually, but not all).

-an option for a guaranteed return coupled with a guaranteed income for life that can never be outlived (the return guarantee is not a walk-away value and is used to calculate the guaranteed income-for-life payment).

FIAs are NOT the greatest "accumulation" tool if someone wants annual average rates of returns in excess of 4%-5%; but for someone's "safe" money, it's much better than Certificates of Deposits (CDs) or money market accounts.

As I alluded, FIAs come with guaranteed income riders. It's literally an insurance company guaranteeing the day someone buys the annuity what the income payment every year for life will be at any given year after purchasing the annuity.

FIA's also have a guaranteed rate of return that is very appealing (6%-8% annual roll-up rate of return (non-walk away value) on the various products in the market). Because this isn't an accumulation White Paper, I will not discuss in any detail the accumulation features of an FIA.

Let's get to the numbers of my favorite "guaranteed" income-for-life tool.

Desired income: \$60,000 withdrawals every year for the remainder of the example client's life.

Starting account balance: \$1,000,000.

Goal: Do not run out of money before death.

Additional goal: Pass the maximum amount of money left to the heirs if possible.

Outcome: After removing \$60,000 a year for 15 years from the FIA, there is an account balance of **\$319,550**.

<b>Year</b>	Beginning Balance	Annual Withdrawals	Annual Returns	Annual Gains or losses	Annual Fee	Year End Balance
1999	\$1,000,000	(\$60,000)	5.00%	\$47,000	(\$7,896)	\$979,104
2000	\$979,104	(\$60,000)	0.00%	\$0	(\$7,353)	\$911,751
2001	\$911,751	(\$60,000)	0.00%	\$0	(\$6,814)	\$844,937
2002	\$844,937	(\$60,000)	0.00%	\$0	(\$6,593)	\$778,344
2003	\$778,344	(\$60,000)	5.00%	\$35,917	(\$6,364)	\$747,897
2004	\$747,897	(\$60,000)	5.00%	\$34,395	(\$6,124)	\$716,167
2005	\$716,167	(\$60,000)	4.91%	\$32,218	(\$5,875)	\$682,510
2006	\$682,510	(\$60,000)	5.00%	\$31,126	(\$5,616)	\$648,020
2007	\$648,020	(\$60,000)	5.00%	\$29,401	(\$5,345)	\$612,076
2008	\$612,076	(\$60,000)	5.00%	\$27,604	(\$5,064)	\$574,616
2009	\$574,616	(\$60,000)	0.00%	\$0	(\$4,770)	\$509,845
2010	\$509,845	(\$60,000)	5.00%	\$22,492	(\$4,252)	\$468,085
2011	\$468,085	(\$60,000)	2.11%	\$8,611	(\$3,738)	\$412,958
2012	\$412,958	(\$60,000)	5.00%	\$17,648	(\$3,390)	\$367,216
2013	\$367,216	(\$60,000)	5.00%	\$15,361	(\$3,027)	<b>\$319,550</b>

The previous chart needs a bit of an explanation. I assumed the maximum rate of return on the actual account value in the FIA in any year is 5% (this is because most of the products have caps that currently have maximum cap rates of 5% (many are even lower)). As you will see in the second column from the right, there is a fee for the guaranteed income rider that has been subtracted annually.

Because the \$60,000 annual withdrawal is more than the average returns minus the annual fee, you see the account systematically reducing. If the example client keeps living, the actual account value will go to zero; and when the client dies, the heirs will receive nothing.



When you first look at the numbers, you might not think this is such a good deal. However, keep in mind that this is the **ONLY** investment/wealth-building tool covered in the White Paper that has a “**guaranteed**” income-for-life payment. Therefore, even if the client lives another 15 years, the \$60,000 payment will continue until death.

Finally, FIAs with guaranteed income riders vary their payments based on age (and they also vary per company and per product). To receive a 6% guaranteed payment, the client will need to be 70 years old. Many companies don’t offer an income payment that goes as high as 6% at age 70. In the “expanded” version of this White Paper, I have numbers for a 5% and 4% income payment. Most products pay a 5%-5.5% income payment for 65 year olds to give you a feel for the payment bands.

Also, even in an expanded version of this Paper, it would be impossible to go through all the various products. Some are designed for younger clients, some for older, and some for in between (in between being around age 60). It is also important to know that I did not and will not illustrate products that are on my **black list** (do-not-sell list) such as the Security Benefit FIA or annuities sold through the Annexus Group. This Paper is not focused on FIAs specifically so discussing products that are, in my opinion, not good for consumers wouldn’t make a whole lot of sense (but there are many products I don’t like).

Final assessment of using FIAs: The right FIAs are the best guaranteed payment tools in the market today.

### **Balanced Portfolio (Modern Portfolio Theory (MPT))**

The MPT seems to be the money management platform that just won’t go away. It’s a staple of many, if not most, of the broker dealer based money management platform.

I went to the TD Ameritrade site and found the following when discussing the MPT:

If you decide to invest your hard-earned money, you naturally want to *minimize your risks* and *maximize your potential returns*. This is the basis of Modern Portfolio Theory (MPT). Developed by Nobel Laureate Harry Markowitz and refined by other noted economists over the years, MPT suggests that you can limit the volatility in your portfolio while improving its performance by *spreading the risk among different types of securities* that don't always behave the same way.

With the MPT, investors are told to invest in a broad range of investments like U.S. Large- and Small-Cap stocks, Emerging Market stocks, U.S. Bonds, Cash, etc. The theory is that the MPT is designed to minimize risk and maximize returns by “spreading the risk.”

The MPT sounds logical when you first think about it, but the problem with the MPT is that it depresses gains when the market is doing well (because X amount of the money is in CDs, money markets, and other conservative investments). Further, when the stock market crashes like we’ve seen twice in the last several years, the MPT takes a sizable amount of those losses (because X amount of the money is invested in mutual funds, index funds, etc.).

So, in theory, you get the best of both worlds with the MPT; but you also get the worst of both worlds.

For my example, I'm going to use a classic 60/40 mix of investments (more specifically, I'll be using the 60% MSCI ACWI Index/40% Citi World Gov't Bond Index). The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Citi World Gov't Bond Index is a total-return index including sovereign bonds from developed and emerging markets.

Let's get to the numbers to see how a balanced mix of investments would have done when creating \$60,000 in income from 1999-20013.

Desired income: \$60,000 withdrawals every year for the remainder of the example client's life.

Starting account balance: \$1,000,000.

Goal: Do not run out of money before death.

Additional goal: Pass the maximum amount of money left to the heirs if possible.

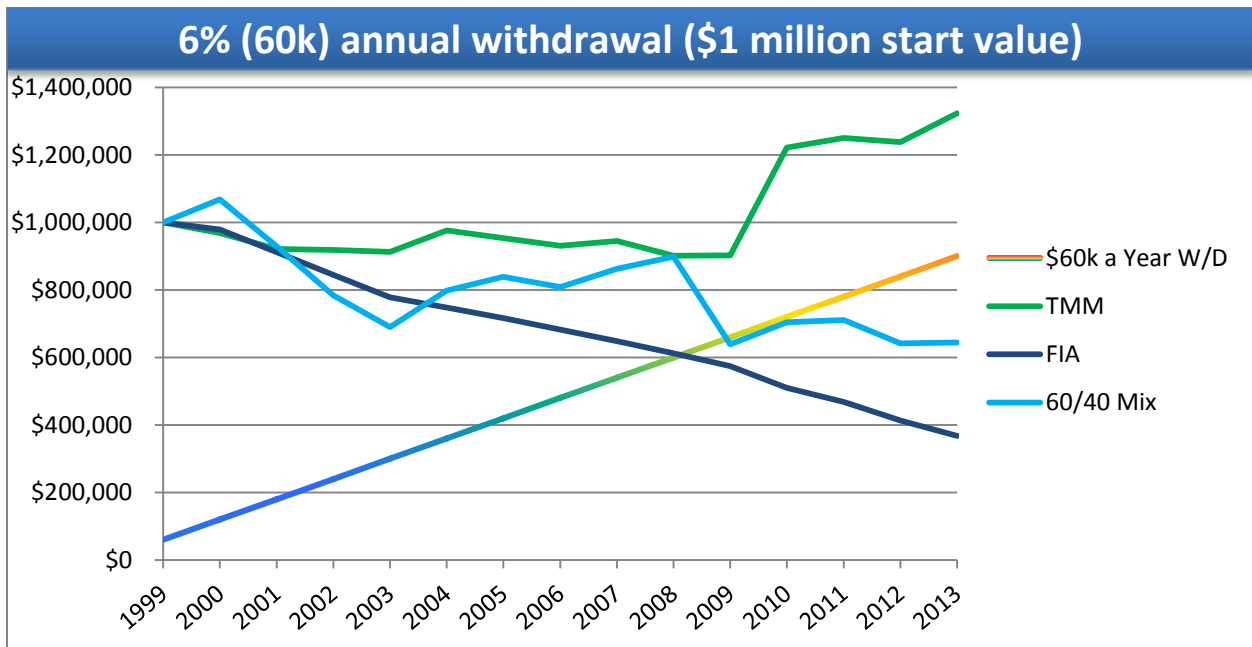
Outcome: After removing \$60,000 a year for 15 years from the account, there is an account balance of **\$652,878**.

	Beginning	Annual	Annual	Annual	Year End
<b>Year</b>	Balance	Withdrawals	Returns	Gains or losses	Balance
1999	\$1,000,000	(\$60,000)	13.62%	\$128,028	\$1,068,028
2000	\$1,068,028	(\$60,000)	-7.86%	(\$79,231)	\$928,797
2001	\$928,797	(\$60,000)	-9.78%	(\$84,968)	\$783,829
2002	\$783,829	(\$60,000)	-4.63%	(\$33,513)	\$690,315
2003	\$690,315	(\$60,000)	26.68%	\$168,168	\$798,484
2004	\$798,484	(\$60,000)	13.61%	\$100,508	\$838,991
2005	\$838,991	(\$60,000)	3.83%	\$29,835	\$808,827
2006	\$808,827	(\$60,000)	15.23%	\$114,046	\$862,873
2007	\$862,873	(\$60,000)	11.88%	\$95,381	\$898,254
2008	\$898,254	(\$60,000)	-23.79%	(\$199,421)	\$638,833
2009	\$638,833	(\$60,000)	21.71%	\$125,665	\$704,498
2010	\$704,498	(\$60,000)	10.35%	\$66,706	\$711,204
2011	\$711,204	(\$60,000)	-1.45%	(\$9,442)	\$641,761
2012	\$641,761	(\$60,000)	10.72%	\$62,365	\$644,126
2013	\$644,126	(\$60,000)	11.77%	\$68,752	<b>\$652,878</b>

Final assessment of using the Balanced Portfolio: The trend with a Balanced Portfolio is disturbing. The account value is dwindling; and depending on your age and your unexpected needs (not something I've discussed yet in this Paper), you might start to get nervous about the amount of money you have available to live on until death if you use a Balanced Portfolio approach.

**Snapshot time**—I think this is a good place to take a look at the three previous options in the following stand-alone chart. The straight lower left-to-middle right angling colorful line represents the \$60,000 annual withdrawal (cumulative numbers). The other lines are self-explanatory with the account values after withdrawals on the right.

Which one do you like better? To me, it's a no brainer to opt for the Tactically Managed Strategy over the 60/40 mix (especially considering the Tactically Managed Strategy has significantly less risk). The FIA line doesn't look that great until you remember that it's the only "guaranteed" line in the chart, and it will keep going until the client dies no matter the account value of the annuity.



If you are looking for maximum income and sustainable account values to pass wealth to your heirs, the choice seems clear to me. The question for readers of this Paper is why, if you are not already, using Tactically Managed Strategies to help you create a stable stream of income in retirement?

### **S&P 500 Index**

Everyone likes to use the S&P as the "benchmark" for investments. That's a mistake in my opinion because it's a volatile growth investment. Few investors will have "all" of their money in such an investment, and virtually no seniors or conservative investors will have a sizable amount of money in the S&P 500 (they can't or don't want to withstand crashes like we've had recently (-46% from 2000-2002 and -59% from the highs of 2008 to the lows of 2009)).

Because 80% of the mutual funds don't beat the indexes, I have chosen *NOT to put in select mutual funds into this Paper*. I did run those numbers with several different mutual funds, and most looked worse than the numbers for the S&P 500 that you will see below.

While it is my opinion that no one in their right mind would have a sizable amount of money in the S&P 500 to be used as an “income-for-life” planning tool, this part of the White Paper will show you how that would have worked out for someone who took income from January 1999 to December 2013.

Desired income: \$60,000 withdrawals every year for the remainder of the example client’s life.

Starting account balance: \$1,000,000.

Goal: Do not run out of money before death.

Additional goal: Pass the maximum amount of money left to the heirs if possible.

Outcome: After removing \$60,000 a year for 15 years from the account, there is an account balance of **\$352,103**.

Year	Beginning Balance	Annual Withdrawals	Annual Returns	Annual Gains or losses	Year End Balance
1999	\$1,000,000	(\$60,000)	21.04%	\$197,776	\$1,137,776
2000	\$1,137,776	(\$60,000)	-9.11%	(\$98,185)	\$979,591
2001	\$979,591	(\$60,000)	-11.88%	(\$109,247)	\$810,343
2002	\$810,343	(\$60,000)	-22.10%	(\$165,826)	\$584,517
2003	\$584,517	(\$60,000)	28.68%	\$150,432	\$674,949
2004	\$674,949	(\$60,000)	10.88%	\$66,906	\$681,855
2005	\$681,855	(\$60,000)	4.91%	\$30,533	\$652,389
2006	\$652,389	(\$60,000)	15.79%	\$93,538	\$685,927
2007	\$685,927	(\$60,000)	5.49%	\$34,363	\$660,290
2008	\$660,290	(\$60,000)	-37.00%	(\$222,107)	\$378,183
2009	\$378,183	(\$60,000)	26.46%	\$84,191	\$402,374
2010	\$402,374	(\$60,000)	15.06%	\$51,562	\$393,935
2011	\$393,935	(\$60,000)	2.11%	\$7,046	\$340,981
2012	\$340,981	(\$60,000)	16.00%	\$44,957	\$325,938
2013	\$325,938	(\$60,000)	32.40%	\$86,164	<b><u>\$352,103</u></b>

People who look at the previous chart will most likely cringe if they were in the S&P 500 or in the market in general over the last 15 years. Going through two huge stock market crashes can make anyone cringe and think twice about the benefits of being invested in the market with no risk-of-loss protection (just like was/is the case with most mutual funds).

Final assessment of using the S&P 500: The trend with the S&P 500 is also disturbing. The account value is dwindling; and depending on the age of this client and their unexpected needs, the client might start to get nervous about the amount of money he/she has available to live on until death.

## DALBAR Study Numbers

If you have not read the DALBAR Study, you really should. What is the DALBAR Study? Technically, it's a Quantitative Analysis of Investor Behavior. In layman's terms, it's a study of how the "average" investor acts and what they do when it comes to buying and holding various investments when the stock market is doing well or when it's doing poorly (crashing).

The conclusion of the DALBAR study is simple—the average investor does very poorly. History has proven this to be true. If you read the 2014 version of the DALBAR report, you'd know that the S&P 500 stock index averaged 9.22% going back 20 years ending in 2013 and 7.40% going back 10 years ending in 2013.

If you read the entire DALBAR Report, you'll find out that the "average" equity investor (mutual funds) earned 5.02% returns over the last 20 years and 5.88% returns over the last 10 years.

At first glance, the statistics support the conclusion to use a buy-and-hold platform as a way to grow wealth. But I've already shown the numbers for a buy-and-hold mentality with the S&P 500 numbers earlier in this Paper (and they didn't look very good).

Why does the DALBAR study say the average investor returned so much worse than the S&P 500? Because the general public are professionals at buying high and selling low.

A buy-and-hold strategy works great in up years and terrible in crash year as the charts have shown you. What would a financial planner have told a 65 year old to do in 2007 before the -59% correction? Were planners good enough to tell clients to get out of the market? Nope. Unfortunately for most clients, they were not and many were absolutely hammered when the market crashed in 2007-2008.

While the DALBAR study is my favorite independent study that comes out every year, it doesn't break down the math by individual years in real time. The report simply gives the average rate of return for the average investor (5.02% going back 20 years and 5.88% going back 10 years).

My charts start in 1999 right before the 2000-2002 -46% crash, and so arguably the numbers I have in this Paper are better or much better than the average investor would have generated.

Let's get to the numbers to see how the average investor would have done when creating \$60,000 in income from 1999-20013.

Desired income: \$60,000 withdrawals every year for the remainder of the example client's life.

Starting account balance: \$1,000,000.

Goal: Do not run out of money before death.

Additional goal: Pass the maximum amount of money left to the heirs if possible.

Outcome: After removing \$60,000 a year for 15 years from the account, there is an account balance of **\$723,119**.

Year	Beginning Balance	Annual Withdrawals	Annual Returns	Annual Gains or losses	Year End Balance
1999	\$1,000,000	(\$60,000)	5.02%	\$47,188	\$987,188
2000	\$987,188	(\$60,000)	5.02%	\$46,545	\$973,733
2001	\$973,733	(\$60,000)	5.02%	\$45,869	\$959,602
2002	\$959,602	(\$60,000)	5.02%	\$45,160	\$944,762
2003	\$944,762	(\$60,000)	5.02%	\$44,415	\$929,177
2004	\$929,177	(\$60,000)	5.02%	\$43,633	\$912,810
2005	\$912,810	(\$60,000)	5.02%	\$42,811	\$895,621
2006	\$895,621	(\$60,000)	5.02%	\$41,948	\$877,569
2007	\$877,569	(\$60,000)	5.02%	\$41,042	\$858,611
2008	\$858,611	(\$60,000)	5.02%	\$40,090	\$838,702
2009	\$838,702	(\$60,000)	5.02%	\$39,091	\$817,792
2010	\$817,792	(\$60,000)	5.02%	\$38,041	\$795,834
2011	\$795,834	(\$60,000)	5.02%	\$36,939	\$772,772
2012	\$772,772	(\$60,000)	5.02%	\$35,781	\$748,554
2013	\$748,554	(\$60,000)	5.02%	\$34,565	<b>\$723,119</b>

Are you are wondering how the average investor who earned a 5.02% average rate of return could have more money at the end of this chart as compared to the investors who had all their money in the S&P 500 that had a much higher average rate of return?

Remember, the S&P 500 had three negative years from 2000-2002. Because those years were in the early part of the spreadsheet, even with a much higher average rate of return over time, the S&P 500 returns couldn't catch up to the level returns taken from the DALBAR Study.

This highlights the importance of **not going backwards** with investments later on in life (investors don't have time to withstand big negative losses and, therefore, this highlights the importance of using Tactically Managed Strategies to significantly reduce risk in the stock market).

**Variable Annuities (VAs)**—I have VAs listed in the investments I was going to compare in this Paper. If you go back to the list where VAs are listed, you'll notice an asterisk (\*) next to it.

I put an asterisk next to VAs because I'm not going to cover them in this White Paper. The vast majority of VAs have mutual funds as their primary investment. Since 80% of the mutual funds don't beat the measuring indexes, there is no point in comparing the actual account values in VAs. They will be less than that of someone investing in the S&P 500.

It's true that you can add a rider to a VA to add a DB component; but the same is true of FIAs, and their riders as a whole are better.

Additionally, the guaranteed income riders that can be added to VAs are also inferior to FIAs.

## White Paper Summary

The neat thing about this Paper is that I used real-world investment returns that can be verified.

You don't have to be a rocket scientist to come up with the conclusions for the paper, but I'll put them forth below nonetheless.

1) For those who want a "guaranteed" income that they can never outlive, the only tool covered in this paper that will accomplish this is an FIA (Fixed Indexed Annuity). The upside to an FIA is that you will never run out of money. The downside is that if you live long enough the annuity value will most likely go to zero and nothing will pass to the heirs.

Because of the limited growth in an FIA, there won't be a time for our example client to reap the benefits of an up stock market which could allow him/her to feel comfortable increasing the annual withdrawals without fear of running out of money.

An additional downside to an FIA is that, once you turn on the income with most products, it can't be changed. Now, you can take an additional withdrawal from an FIA; but doing so will forever lower the future income stream. This is an important issue to think about considering that many non-affluent people will only have so much money in retirement; and if an emergency situation arises, the ability to dip into the FIA account value will have negative life-long lasting effects on the income stream.

2) For those who want to be in the market or generate returns that are market-like returns, it is **very risky** to use the S&P 500 or mutual funds. There is no protection from downside risk using either, and to be 100% at risk to market crashes is a recipe for disaster for people who have limited funds who need to create an annual income every year for so long as they live.

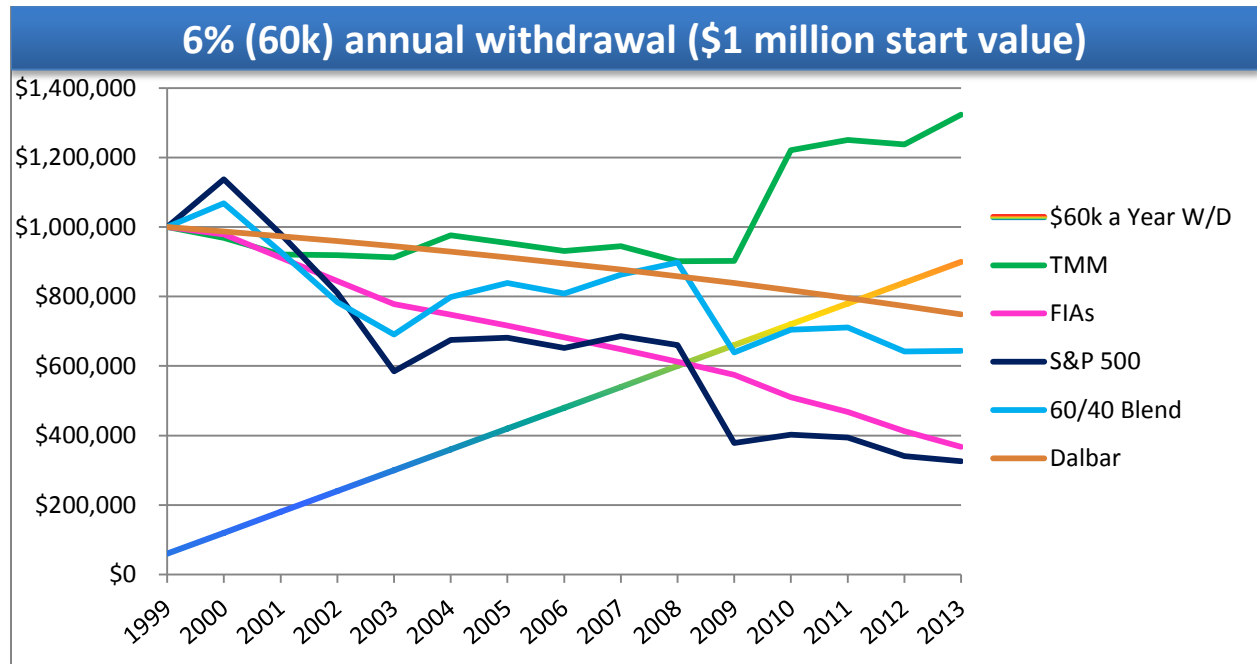
3) Using the Modern Portfolio Theory (a balanced/blended portfolio) is not a great way to maximize the amount of money that can comfortably be removed from a portfolio while protecting you from running out of money.

The MPT depresses returns in up years and captures too much of the negative returns in down years. Just because the majority of the industry is trained to use the MPT to posture clients for income in retirement doesn't make it right. I strongly urge readers of this Paper to seek out Tactically Managed Strategies that are better postured to help you avoid risk and capture gains so you can feel more at ease about removing the maximum predictable income from a market-like investment.

4) For those who do not want their actual account values to be stifled by the returns in FIAs and who want to be postured to pass the maximum amount of wealth to their heirs in a non-guaranteed investment with 80% less risk than the S&P 500 (and most mutual funds), there is no doubt that using Tactically Managed Strategies (ones that are designed to avoid risk) make the most mathematical sense to use.

**The Chart**—I started this White Paper with what I would consider the Mac Daddy of charts. It has all the investments covered put in line-graph form so readers can easily compare how each one would have fared from 1999-2013 using the real-world verified numbers.

Again, from a Keep it Simple Stupid (KISS) point of view, the chart really says it all. Which investment (which line) do you like better?



The question I have for readers who make it all the way through this Paper is: What are you going to do now? Will you try to research Tactically Managed Strategies? Will you research FIAs?

Will you think twice about using an MPT-type balanced portfolio mix for clients going forward?

If you would like to have help understanding your investment options (including information on Tactically Managed Strategies), simply e-mail me at [roccy@nolongeroption.com](mailto:roccy@nolongeroption.com).

If you have any comments for me (including constructive criticism), feel free to also e-mail me at [roccy@nolongeroption.com](mailto:roccy@nolongeroption.com).