Winning the Battle for Retirement Survival

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Our Mission

To determine which of two strategies is superior for building sufficient wealth for a comfortable retirement

Our Methodology

- Test and compare the two strategies: a “Conventional Model” and an “Asset/Liability Matching Model”
- Specify life goals for young, middle-aged and senior investors possessing average and affluent wealth
- Construct A/L goal-based portfolios for each
- Construct conventional without-goals portfolios
- Analyze the performance of the A/L and Conventional portfolios in Strong and Weak stock markets

The Conventional Model

- Investors attempt to reach for maximum returns subject to their risk preferences; i.e., the volatility of returns
- The process begins by an investor defining his life goals, establishing a budget, and projecting future cash flows
- The investor's willingness to bear risk will determine the "best" portfolio to satisfy necessary and desired life goals
- A shortfall between projected returns and retirement needs is met by adopting higher beta/higher risk strategies

Conventional Advice from the "Expert"

"Of course, to get higher returns, you've got to assume greater risk."

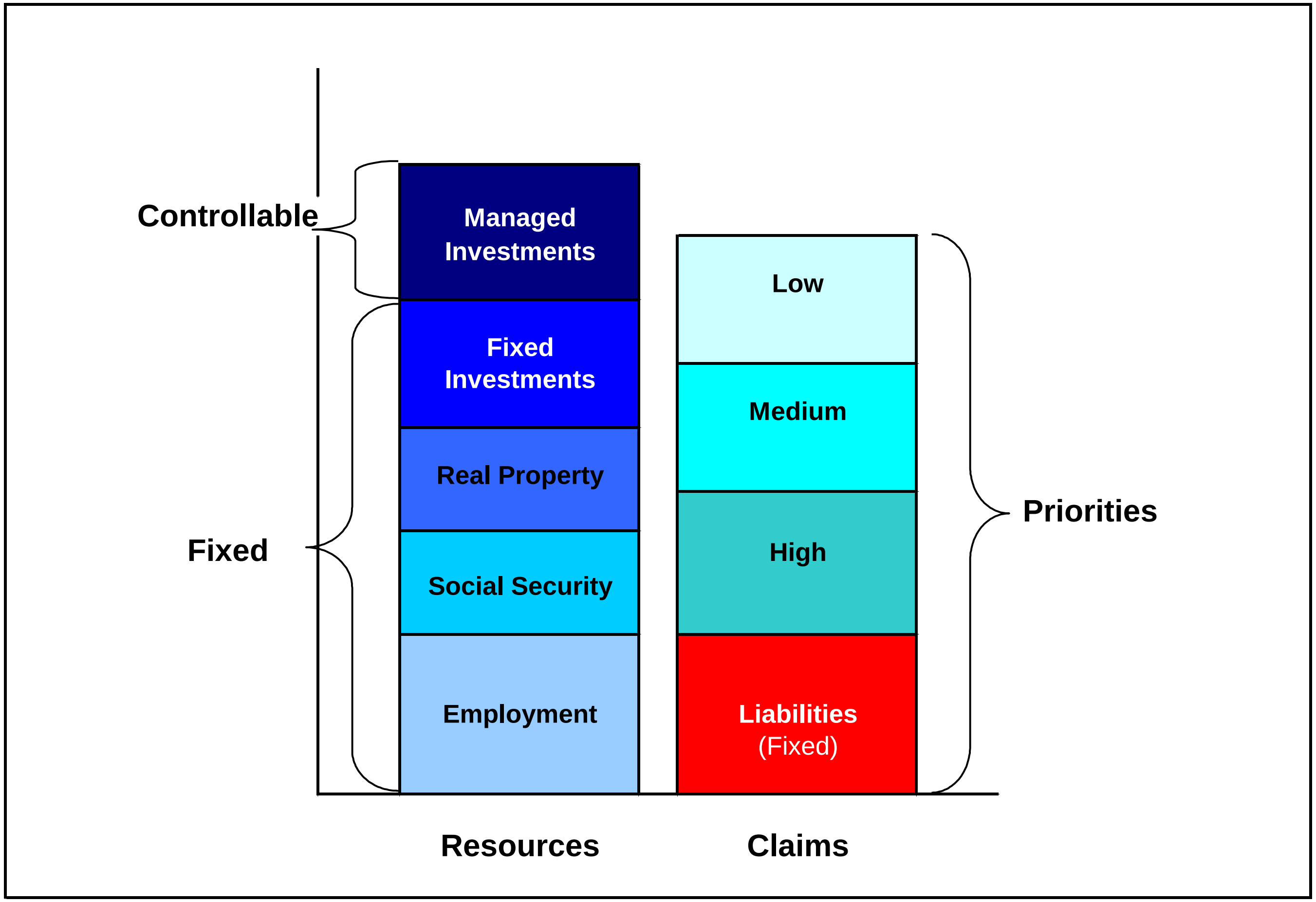
The Asset/Liability Model

- Investors balance their current resources and future income against the future claims on those assets
- Resources include all financial assets: income, SSI payments, rent from real property; interest, dividends and capital gains from managed investments, etc.
- Liabilities include all claims on those assets: mortgage payments, financing charges, living expenses, college education, capital purchases, etc.

Differentiating Between Assets' Variability and Liabilities' Payment Priorities

- Each asset class has its own variability; e.g., interest income has lower variability than managed investments
- Each liability has different payment priorities; e.g., mortgages are fixed while vacations may have lower payment priorities and could be postponed
- The challenge is to satisfy claims while growing different sets of assets to meet them; matching specific assets with specific obligations
- For example, fixed lump sum obligations could be timed to the maturities of zero-coupon U.S. Treasury bonds
- A/L investors regard risk as the prospect of failure to achieve life goals – not "beat the market"

A/L Matching: A Graphical Representation



Source: New Millennium Advisors, LLC

Asset/Liability Matching: The Method

- Represent the investor's financial goals and resources as a balance sheet
- Evaluate the investor's risk exposure by projecting future cash flows
- If there is a surplus of resources over claims, the investor has the capacity to bear risk
- If there is a shortfall, the investor lacks that capacity and must reevaluate his goals
- Construct a portfolio most likely to satisfy current and future claims while growing different sets of assets
- Quantify the margin of safety to measure the prospect for success in achieving those goals

It’s Not as Easy as it Sounds

“But, there’s more to it than buying low and selling high.”

Analyze and Compare Both Models

- Three generations of investors are analyzed: young singles, middle-aged couples and retired couples
- Each generation is assumed to have two asset endowments: average and affluent
- Each of the six Asset/Liability matched portfolios are analyzed under two stock market scenarios: Weak and Strong
- Their investment results are compared to Conventional without-goals portfolios

Assets & Liabilities for Achieving the Life Goals of Six Demographic Groups

	Age 30		Age 45		Age 65	
Assets/Resources	**Average**	**Affluent**	**Average**	**Affluent**	**Average**	**Affluent**
Home Value	-	-	$170,000	$220,000	$250,000	$400,000
IRA	$0	$25,000	$50,000	$80,000	-	$250,000
Brokerage	$15,000	$30,000	$80,000	$150,000	$225,000	$300,000
Bank Checking/Savings	$5,000	$5,000	$5,000	$5,000	$10,000	$15,000
Soc. Sec. Inc./Mo.	$0	$0	$0	$0	$1,800	$2,700
Employment Income/Yr.	$50,000	$90,000	$85,000	$150,000	$25,000	$50,000
Liabilities/Claims						
Home/Mortgage	-	-	$140,000	$180,000	$100,000	$150,000
Marriage/Living Exp./Yr.	$30,000	$40,000	$38,000	$58,000	-	-
Family/Kids' Education	$0	$0	$18,000	$58,000	$0	$0
Retirement Exp./Yr.	-	-	$40,000	$60,000	$40,000	$60,000

Sources: Advisor Software Inc. and New Millennium Advisors, LLC

Conundrum: Strong and Weak Markets

"Two of the most fascinating scenarios have evolved from our economic analysis."

Selected Securities and Economic Statistics Under Weak and Strong Market Scenarios

	Weak Scenario		Strong Scenario	
Asset Class	Annual Return	Std. Dev.	Annual Return	Std. Dev.
U.S. Equities (S&P 500)	4.8%	11.9%	9.6%	15.7%
International Equities	4.8%	13.0%	9.6%	17.2%
Treasury Inflation Protected Sec (TIPS)	4.5%	0.6%	6.8%	0.7%
3-Month T-Bills	4.7%	0.3%	4.0%	0.5%
1-Year Treasury Securities	5.1%	0.3%	4.4%	0.5%
5-Year Treasury Securities	5.5%	0.3%	5.2%	0.4%
10-Year Treasury Securities	5.5%	0.3%	5.6%	0.3%
20-Year Treasury Securities	5.3%	0.3%	6.1%	0.2%
Moody's Aaa Corporate Bonds	6.0%	0.4%	6.9%	0.2%
CPI - Urban Consumers	3.6%	0.8%	2.4%	0.8%
Real Gross Domestic Product	4.5%	1.8%	3.3%	1.1%

Source: New Millennium Advisors, LLC

Estimated Returns of Goal-Based Portfolio Allocations Under the Weak Market Scenario

	Age 30		Age 45		Age 65	
Margin of Safety	**Average**	**Affluent**	**Average**	**Affluent**	**Average**	**Affluent**
Necessary Goals	37.0%	49.0%	36.0%	43.0%	29.0%	38.0%
Desired Goals	21.0%	36.0%	23.0%	31.0%	14.0%	25.0%
Total Margin of Safety	58.0%	85.0%	59.0%	74.0%	43.0%	63.0%
Goal-Based Allocation						
TIPS	74.0%	0.0%	37.0%	0.0%	44.0%	0.0%
Fixed Income/Cash	26.0%	100.0%	63.0%	100.0%	56.0%	100.0%
U.S. Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
International Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Annual Return (Est.)	4.4%	4.2%	4.3%	4.2%	4.3%	4.2%
Without-Goals Allocation						
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Income/Cash	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
U.S. Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
International Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Annual Return (Est.)	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%

Sources: Advisor Software Inc. and New Millennium Advisors, LLC

Estimated Returns of Goal-Based Portfolio Allocations Under the Strong Market Scenario

	Age 30		Age 45		Age 65	
Margin of Safety	**Average**	**Affluent**	**Average**	**Affluent**	**Average**	**Affluent**
Necessary Goals	36.0%	48.0%	35.0%	41.0%	28.0%	37.0%
Desired Goals	24.0%	38.0%	24.0%	32.0%	16.0%	27.0%
Total Margin of Safety	60.0%	86.0%	59.0%	73.0%	44.0%	64.0%
Goal-Based Allocation						
TIPS	32.0%	0.0%	41.0%	29.0%	43.0%	23.0%
Fixed Income/Cash	26.0%	11.0%	6.0%	5.0%	6.0%	5.0%
U.S. Equity	19.0%	41.0%	24.0%	29.0%	23.0%	33.0%
International Equity	23.0%	48.0%	29.0%	37.0%	28.0%	39.0%
Annual Return (Est.)	7.9%	9.3%	8.3%	8.6%	8.2%	8.8%
Without-Goals Allocation						
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Income/Cash	9.0%	17.0%	16.0%	14.0%	9.0%	17.0%
U.S. Equity	82.0%	75.0%	76.0%	77.0%	82.0%	75.0%
International Equity	9.0%	8.0%	8.0%	9.0%	9.0%	8.0%
Annual Return (Est.)	9.3%	9.1%	9.1%	9.2%	9.3%	9.1%

Sources: Advisor Software Inc. and New Millennium Advisors, LLC

Estimated Returns of Weak Market Portfolio Allocations in a Strong Market Environment

	Age 30		Age 45		Age 65	
	Average	Affluent	Average	Affluent	Average	Affluent
Goal-Based Returns (Est.)	6.7%	6.5%	6.6%	6.5%	6.7%	6.5%
Without-Goals Returns (Est.)	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%

Sources: Advisor Software Inc. and New Millennium Advisors, LLC

Estimated Returns of Strong Market Portfolio Allocations in a Weak Market Environment

	Age 30		Age 45		Age 65	
	Average	Affluent	Average	Affluent	Average	Affluent
Goal-Based Returns (Est.)	4.6%	4.7%	4.6%	4.7%	4.6%	4.7%
Without-Goals Returns (Est.)	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%

Sources: Advisor Software Inc. and New Millennium Advisors, LLC

Total Equity Exposure of the Goals-Based and Without-Goals Portfolios

	Age 30		Age 45		Age 65	
	Average	**Affluent**	**Average**	**Affluent**	**Average**	**Affluent**
Goal-Based Exposure	**42.0%**	**89.0%**	**53.0%**	**66.0%**	**51.0%**	**72.0%**
Without-Goals Exposure	**91.0%**	**83.0%**	**84.0%**	**86.0%**	**91.0%**	**83.0%**

Sources: Advisor Software Inc. and New Millennium Advisors, LLC

The Main Conclusion

Winning the battle for retirement survival requires matching financial resources against necessary and desired life goals. Asset/Liability matching appears to be a superior alternative to conventional strategies which attempt to maximize returns consistent with a specified volatility.

“If You Want My Opinion . . .”

“If you want my opinion, the stock market could go up or down, unless, it just goes flat.”

In Sum, A/L Matching has Several Advantages:

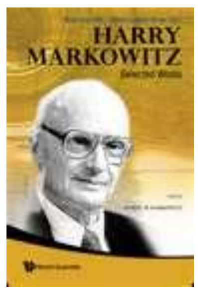
- It results in portfolio resistant to market vagaries no one can accurately predict
- It accommodates a full spectrum of wealth levels and demographics tailored to specific clients
- It provides a more holistic view of investors' resources and goals
- It is a coherent plan for investors to meet necessary and desired life goals
- It quantifies a margin of safety to assess an investors aversion to risk

“Give Me a Sign!”

“Couldn’t I have a hint instead of the usual nasty surprise?”

Acknowledgements

The experiences of these and other investment professionals may have contributed to the knowledge contained within and the necessity for this presentation:



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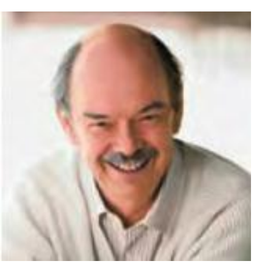

Thank you!

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