



Time Isn't On Baby Boomers' Side

Nearly 80 million baby boomers¹ are rapidly approaching retirement age and many of them have a problem, a very BIG problem. The problem stares them in the face every month when they look at their retirement plans, savings accounts, and brokerage statements. That problem is money, or more precisely, the lack of it.

Unlike most of their parents, who earned guaranteed pensions that promised a fixed monthly check when they retired, many baby boomers are responsible for managing their own retirement accounts². And the markets have been particularly unkind over the past decade leaving millions of baby boomers woefully short of the retirement funds they hoped to have at this stage in life.³

To illustrate this point, let's go back to the fall of 1999. We'll use a hypothetical 52 year-old that wants to retire at age 62 and has \$500,000 in a 401(k). A free computer program is used to estimate the future value of the 401(k) in 10 years assuming ongoing contributions equal \$15,000 annually and the employer match is \$3,000 annually. The program uses what some used to consider a "reasonable" 10% annual return, which is much less than what stocks had averaged for the 20 years prior to 1999.⁴

The program calculates the 401(k) will grow to almost \$1,600,000 in 10 years if everything goes according to plan.⁵ Let's assume the funds earned the average of the S&P 500 Index over the previous 10 years. This hypothetical investor would probably have been very disappointed to learn that the plan had much less money than the program projected 10 years earlier. In this example, it would have less than \$700,000 compared to the original estimate of almost \$1,600,000.⁶

And, while this is a hypothetical example, it's clear that in light of the worst decade for stocks in a generation, many baby boomers may need help managing their finances.⁷ Hiring a professional financial advisor doesn't guarantee baby boomers will be able to make up for years of poor investment performance in their retirement plans.

But, a growing number of forward thinking advisors are utilizing a variety of resources that may help their clients' retirement funds better withstand stock market volatility.

¹ <http://www.prb.org/Articles/2002/JustHowManyBabyBoomersAreThere.aspx>

² <http://www.ifebp.org/PDF/webexclusive/06feb.pdf>

³ <http://www.cbsnews.com/video/watch/?id=4952855n>

⁴ Thomson-Reuters Investment Software

⁵ Ibid

⁶ Thomson-Reuters Investment Software

⁷ http://www.aarpfinancial.com/content/Learning/retPerspectives_hinden_0708.cfm

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- **Targeted Diversification.** Up until this most recent bear market, many people thought diversifying among stocks and bonds was enough to cushion the blow from large market declines. That turned out to be a false sense of security as stocks plunged around the world. Today, financial innovation has opened up new investing opportunities that may allow a more targeted approach to diversification. These new opportunities may enable advisors to develop portfolios that are not as closely aligned with the ups and downs of the stock market. Prudent use of these new opportunities may improve long-term performance, or at least help reduce volatility.
- **Treasury Inflation-Protected Securities (TIPS).** Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation and are backed by the U.S. government. The principal increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year at a fixed rate. The rate is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation.
- **Advance and Protect Strategies.** It's impossible to precisely "time" the stock market's often nonsensical ups and downs. However, some trading strategies have managed to provide "clues" as to the general expected direction of stocks based on a variety of data. The goal is to take advantage of the "Advances" in market prices while "Protecting" those gains from precipitous declines. And, while no such system can guarantee success, most investors like knowing a strategy is in place that may reduce their exposure to sharp market declines in the future.

Risk and uncertainty are facts of life. But there may be ways to reduce exposure to those risks by utilizing appropriate tools and resources. And that's where a professional financial advisor can potentially add value to their clients. By helping them understand their options, and implementing the ones that make sense, advisors may help their clients avoid the worst of future financial storms.

The above material was prepared by PEAK.

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