



MyIncomeStrategy.comSM

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Income Expert, Alan Klayman's Top 10 Mistakes People Make Regarding their Retirement Income Strategy

You've spent decades in the workforce, investing and saving so you'll have money to live on once you retire. So, what's next? How do you plan to go about accessing your investments and savings as income during retirement? Are you certain you won't run out of money?

Choosing an income strategy is an important step for people who are thinking about retiring and for those already retired. Unfortunately, there is a great deal of misunderstanding out there regarding income strategies: what they are, why they're necessary and the risks that exist for not having one.

Income strategy expert Alan Klayman is the creator of MyIncomeStrategy.comSM, an online educational resource that teaches people about their income strategy options. He has identified the top 10 mistakes people make when it comes to income strategies:

- 1. They don't have an income strategy.** This is certainly mistake number one. Not having an income strategy places you at risk for running out of money once you begin living off your savings and investments. If you simply take all that you've saved and invested and deposit it into a checking account to live off of, you may eventually run out. Being invested in the stock and bond market is no guarantee that your money will last as long as you do either. Everyone needs an income strategy, no matter how much money you have. An Income Strategy should allow you to draw an income from your investments and savings, keep up with inflation, and should last as long as you do.
- 2. They confuse an income strategy with an investment strategy.** An income strategy deals with the distribution of money; whereas an investment strategy deals with growth of money. Let's say your friend has \$100,000. They want to grow that \$100,000. To do this, they would need to find suitable investments that give them the opportunity to make money over time; an investment strategy.

You have \$100,000 in savings and investments, and want to begin receiving a monthly paycheck to supplement your other income sources (pensions, other work, spouses income, social security, etc.). To do this you need a method that produces a steady reliable paycheck for you, is independent of the daily fluctuations of the markets, gives you the opportunity to stay with or ahead of inflation, and lasts as long as you do; an income strategy..

If a person doesn't know the difference between the two, he or she runs the risk of being sold something they don't need, might not work for them, and/or running out of money.

- 3. They use growth strategies and the math that goes with them to develop an income strategy.** The math used to develop an income strategy is very different from that which is used to develop an investment strategy. Both incorporate your savings and investments, but they have a different purpose. Kind of like transportation. A race car driver wouldn't take a snow plow around the track. Well they could, but chances are they are going to lose that race. And the workers plowing the highways aren't doing it with race cars. They could, but chances are they'll clear very little snow and end up off the road.

Most web and in-house financial calculators use the same type of race car logic, when they need a snow plow & vice versa. What works for growing money, doesn't always work for distributing money. Two of the main culprits are 1) Market Volatility (or frequent investment fluctuations), and 2) Inflation. Inflation can hurt fixed investors, and those on a fixed income. Market volatility can destroy the best investment strategy. How? What if the market goes down a lot and you money today? Without the right income strategy you end up using long term solutions on short term problems which is called 'reverse dollar cost averaging'.

4. **They put all their eggs in one basket or are looking for a “magic wand.”** If this is how you or your financial advisor begins a sentence regarding your income strategy, be careful: “If you buy this stock...” “This annuity will do it all for you...” or “If I make money on this one piece of property...” Why? Because there is no magic wand for creating an income strategy. Most well thought out and solidly planned income strategies incorporate several types of investments and investment strategies, are monitored, and adjust with your needs.
5. **They are SOLD something they don't need - conversely they BUY something that doesn't fit their needs.** Here's an extreme example, a 21 year old being advised to put all of their money into a savings account for retirement. Why is that extreme? There are other fixed investments (CD's, Bonds, and the like) that give a higher return with safety. Not to mention the opportunity that is lost for someone that young with so much time that investing in the stock market or stock mutual funds gives them. Another extreme example, an 85 year old being told to sell all of her savings bonds and buy a high-risk mutual fund, or stock, or to put that money into an investment where she can't touch it for 10 years. This example is extreme if this 85 year old has no other money, can not afford the risk, and needs access to her funds.
6. **They are more interested in what is 'hot' or a 'get rich quick' scheme than solid planning.** The old adage “it's too good to be true,” is TRUE! This is like basing your entire retirement income on winning the lottery. You'll “invest” a fortune in the opportunity to get really rich overnight, but what are the chances it will pan out? Slim to none. I'm sure you've seen other examples of get-rich-quick schemes. If it sounds too good to be true, it usually is, which is why you need to solidly and consciously plan your income strategy; not throw your money away.
7. **They think they have a chance to earn an unrealistic rate of return for a sustained period of time - hence their pursuit of #4.** When the market was going straight up for a year or two in the late 1990's, I had someone look me in the eye and with all seriousness tell me that they had figured out the stock market, and that any return under 20% a year wasn't good enough. When you set a goal for your income strategy, or for an investment strategy, remember some of the averages. Because if you can beat the averages, you are ahead of the game. If a well diversified, asset allocated portfolio that is professionally managed can stay ahead, you are ahead. Don't look for a silver bullet of 50% a year. If you get one, great. Enjoy it, Savor it, but don't ever count on it.
8. **They do things that might work right now, but never look at it again.** This is sort of like balancing your checkbook once and then never looking at it again. Not very smart, right? Situations must be monitored over time to make sure they are still moving in the direction you want them to. People's lives change over time. Income Strategies must change along with them. Don't drive yourself crazy on the web, or the TV, or newspaper every minute. Think big picture. If the big picture changes (you move, family changes, big change in the economy) you need to look at your income strategy again. Otherwise monitor your income strategy, like you do your investments. Revisit it at least annually. This is a responsible way to manage your finances. Investments change too. Remember the dot com bubble? Some of those investments worked out real well, some of those companies don't exist anymore. It's 2007, do you really want to invest like it's 1999? If you haven't looked in 10 years, it's time.
9. **They have an irrational fear of investing, or of a specific type of investment.** There are some people out there who view investing as just risk, like roulette. They believe that you don't have a chance making money when you invest. Others put money into an investment on a ‘tip’ and lost it, or got tied up into an expensive investment that yielded little to nothing, and think that all investments are like that. Not so.

There are many types of investment vehicles out there. Not all of them require to put all of your money on one thing. There are investments intended to help spread out risk while still trying to grow your money. These types of investments place a bit of money in a number of areas, creating a diversified portfolio. In one year, the growth could be quite modest. But over 20 years, it could

be substantial. The risk for well diversified types of investment vehicles, especially those that are professionally managed can be much lower than putting it all in one place.

10. They think that all investing means the stock market. Not all investing means the stock market. There are many types of investments, like bonds, and cd's, that pay fixed interest and the actual return can be calculated when you first invest your money. This calculation works for those that hold their investments until maturity (the investment, not the investor).

Most of these mistakes are simply the result of not understanding or being aware of your options. Spend some time learning about income strategies and increase your level of knowledge when you meet with a financial advisor. The best way to keep from being talked into something you don't need, or making a serious mistake in your income strategy is to be informed.

Alan Klayman is creator of MyIncomeStrategy.comSM (www.MyIncomeStrategy.com) and an expert in finance. With over 25 years' experience, Klayman has helped over 10,000 individuals and advisors representing billions of dollars develop income strategies, as well as estate planning and other finance-related solutions. Contact him at alk@myincomestrategy.com.

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