Financial Life Notes

For your Financial Independence & Peace of Mind
Martin Wealth Management, LLC   Steve Martin, MBA
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The response to the first issue of "***Financial Life Notes***" was very positive. Thanks to everyone who took the time to read it and to give me feedback. I will continue to try to provide you with information that is helpful and meaningful.

One of my key beliefs is that each of us has been given a very unique set of gifts – different from those given to anyone else. One of our major tasks in life is to discover and use those gifts. In his book, "***Inspire!***", Lance Secretan gives you tools to help you discover you're Destiny, Cause and Calling – your way to use your unique talents. I have found this to be an immensely helpful book and hope that you might also. You can read more about it in the book recommendation section at the end of this newsletter.

New Newsletter Section: I believe that Philanthropy is an important part of each of our lives. In support of that belief, I have added a new feature this month – "The Non-Profit of the Month", in which I will highlight local organizations that make a difference in our community and that could use donations of your time or your financial support. If you know of an organization that should be highlighted, please let me know.

If you have any questions, comments or suggestions, please email them to me at steve.martin@mwm3.com.

Steve

Quote of the Month: "A man sooner or later discovers that he is the master-gardener of his soul, the director of his life." James Allen

Web Link of the Month: www.secretan.com (see the LIFE Book of the Month section on page 2 of this newsletter.

Riley Reconsidered

By Chip Simon, M.S., member of the Alliance of Cambridge Advisors

When I was growing up there was a TV show called *The Life of Riley*. The graphic used to depict the show's main character was a hammock, a symbol that endures as an image of retirement – retired life is easy, carefree, and passive.

Of course, this image is totally out of touch with the realities of retirement today. Why? Consider this. We're living longer. At the beginning of the 20th century the average lifespan was 47 years. Today it's 74 years—a 57% increase. The longevity trend has generated interest in post-retirement employment. AARP has reported that 68% of retirees never expect to retire because they want to use work to stay physically and mentally active. Of these, 46% expect to work just part-time, but 54% admit that they will need full-time employment to make ends meet.

That sobering statistic underscores the increased need for financial self-reliance, another compelling economic trend during the last 25 years. The traditional "three-legged stool" of retirement funding– a guaranteed pension, Social Security, and personal savings – is wobbling and losing its balance. Pensions are disappearing across the land because companies can't afford to fund 40 years of retirement. The steady three-legged stool is being replaced by an unsteady pair of crutches—an uncertain Social Security benefit on one hand and personal savings on the other. The result of all this change is that people are being forced to make important new financial decisions for themselves.

In the past, employees knew the formula: work for so many years, collect the pension, and live within that budget. But today the right retirement number is not likely to be a "given." It has to be calculated. Given the trends, you would think that workers would do that, right? Yet the American Savings Education Council tells us that 61% of all workers have not yet calculated how much money they will need for a comfortable retirement!

So here's your first step toward improving your financial situation. Make sure you are not among that 61%. To hit the bull's eye you must know where your target is. Here is a simple approach to help you calculate your retirement needs.

First, assume your current lifestyle will be your retirement lifestyle. Then add up your cash expenses: your annual household expenses, your annual tax payments, and the amount you save each year. And don't forget to factor in the unexpected car repair and helping out your children or grandchildren from time to time. That equals the total amount of income you'll need. Next, add up all of your guaranteed sources of income: projected annual Social Security benefits, pensions, as well as other income sources. That's your cash inflow. Is this more than your expenses? Great. If not (very likely), then you need to generate cash from personal savings to fund the "gap."

How much savings will you need? Multiply your "gap" by 15 to calculate your required personal savings. We use 15 to get the income replacement number. It calculates the amount of required savings that will earn enough interest to cover your gap, assuming an interest rate of 6.67% (1/15 = 6.67%). This is considered a reasonable after-tax return on an investment portfolio.

For example, if you have $50,000 in annual household expenses, $7,000 in annual savings, and $10,000 in annual tax payments, then your annual cash need is $67,000. Suppose that you will have $18,000 in Social Security income and a $25,000 pension. That will leave you with a $24,000 gap ($67,000 minus $18,000 minus $25,000 equals $24,000). Multiplying $24,000 by 15 gives you $360,000 in required personal savings. If $360,000 earns 6.67%, this will generate the $24,000 gap.

Now remove the pension amount in the example above to see what happens. The gap will increase to $49,000. Multiplying that times 15 gives you a $735,000 required savings balance. You can see that much more personal savings is required when you don't have a guaranteed pension payment available, as is the case with so many of today's retirees.

So take an important step to improve your financial future right now. Don't rest on your laurels like Mr. Riley. A simple estimate of your future financial needs can have a profound effect. It can help direct your thoughts and, more importantly, your behavior to fulfill realistic goals. This is critical in an era of financial self-reliance. And when you want to make the calculation more specific and precisely in tune with your personal plans and financial circumstances, consider working with a trained financial advisor who can help make sure that you are on track to hit your target.

Life Book Recommendation of the Month: Inspire! - Written by Lance Secretan.
In this book, Lance Secretan talks about his "new story of leadership"-a style based on personal integrity, building community, and deep self-awareness. The heart of the book is a discussion of what Secretan describes as "Destiny-Cause-Calling": WHY are we here, how will we BE, and what will we DO? Secretan offers a step-by-step process for undertaking this self-examination and producing a personal statement that can form the core of a personal leadership style.

The author suggests ways to ensure that all three elements are aligned, and how to lead by serving others. It is only through a relentless emphasis on inspiring others, Secretan believes, that we find success and fulfillment at a personal level. The approach in Inspire! is to arrive at personal view of leadership from the inside-out, based on an authentic, heartfelt calling.

Financial Book Recommendation of the Month: The Four Pillars of Investing : Lessons for Building a Winning Portfolio by William J. Bernstein.
The Four Pillars of Investing is both a historical review of investment success and failure with a very honest discussion of risk and reward. The pillars are the theory of investing, the history of investing, the psychology of investing (which is now recognized as a critical component in understanding why we invest the way we do) and finally, the business of investing.

Investing Quote of the Month:
"Most of my investments are in equity index funds." BusinessWeek & The Parable of Money Managers - William F. Sharpe, Nobel Laureate in Economics, 1990

Non-Profit of the Month - Matthews House – A Place of Restoration, Hope and Healing
The mission of The Matthews House is to support and encourage young adults seeking renewed purpose in life as they transition into adulthood. They provide mentoring, counseling, and life skills training as a solid foundation upon which transitioning and emancipating youth (ages 16-21) can implement positive life changes as they navigate through difficulties relationally, emotionally, physically and spiritually. This is a new non-profit in Fort Collins. They are looking for mentors or your support via donations. Contact Jerri Howe, Executive Director at 472-0609 or visit their website at www.theMatthewshouse.org.

Martin Wealth Management, LLC, is a Fee-Only Financial Planning firm located in Fort Collins, Colorado, and is a Registered Investment Advisor with the State of Colorado. Martin Wealth Management was founded on the belief that people should use their money to create a fulfilling life – rather than using their life just to create money. Financial Life Planning from Martin Wealth Management begins with this assumption and focuses on your values and dreams. We utilize concepts and processes developed by George Kinder – known as the "Father of Financial Life Planning."

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I am available to speak to your group on a variety of subjects. Please call or email me for more details. **Please call for a free initial consultation**