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the BENEDICT *REPORT*

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RETIREMENT LIFESTYLE PLANNING...

"I just read an article that says I'm going to need at least two million dollars in savings to be able to retire. I'm already fifty-three years old and my savings and investments are rather modest, especially compared to two million dollars. I guess I'm doomed to a lousy retirement!."

Obviously, if every household needs two million dollars to be able to quit work, we will have a lot of *old* workers in a few years.

There is no magic *number* that applies to everyone. And, at age fifty-three you are in a great position to get serious about making your retirement years what you want rather than being dependent on whatever life deals you.

"But, I'm not one of those people who can live like a monk and save half of what I make any more than I can live on broccoli and turnip greens and never have a piece of apple pie. I guess I'm doomed to a lousy retirement!"

Retirement income planning or, maybe we should call it **Retirement Lifestyle Planning**, isn't about incurring unbearable pain today to be able to enjoy tomorrow. You can enjoy some apple pie during your working years, but you must also partake of a little broccoli or you will be out of balance.

"But, I know this planning stuff is all about numbers. I just can't live my life worrying about numbers all the time. I guess I'm doomed to a lousy retirement."

You can create a very satisfying retirement lifestyle without focusing totally on dollars and cents, but you do have to have a sense of financial balance. Let's compare this to eating...a lot of trim people have no idea how many calories or grams of fat they consume daily. And, conversely, some obese people are obsessed with calories, fats and carbs. What is important is understanding concepts and balance.

Let's look at some rather simple **lifestyle concepts** that you need to understand:

- **Fixed Expenses vs. Varying Expenses** - If your current lifestyle is dominated by fixed costs: debt payments, lease payments and other unchangeable monthly expenditures, then you have very limited financial flexibility. The less financial flexibility you have going into retirement, the more likely you are to have financial problems.
- **The Fruit, not the Fruit Tree** - If you have an apple tree you can enjoy the apples year after year. However, if you also cut off some of the limbs each year to provide for your needs, then you will eventually have no tree and no apples. The same concept applies to your retirement investments...live on the earnings and they will treat you very well, during good times and bad. Spend the principal on a regular basis and every economic storm will push you closer to financial ruin.
- **Keeping up with the Jones'**- This sounds like something my mother would have said in the 1960's, but sometimes yesterday's sayings are still true today, even if we think times are different now. Whether you are working or retired, if you live and mingle with people of similar financial means, you will be far happier than living with those who have far more tangible wealth than you. Another way of looking at this is if we find ourselves valuing life by how much we can spend - and not focusing on what we have and do.
- **Don't shut off your engine before the finish line** - By far the biggest financial problem we see in retirement, other than too much debt, is caused by people leaving the workforce too early. This can put tremendous strain on an otherwise sound financial plan.
- **"Work" a little longer** - *Work* is not a four-letter word if we don't have to do it. Some of the happiest retirees we know still *work.* Many times it is a part-time position and for others it is self-employment, but if you don't have to do it to eat, then it can add a lot to your life.
- **Learn to say "no" to your adult children** - Even if you don't consider yourself wealthy, if you are living a reasonably comfortable retirement lifestyle, you look "rich" to those who aren't, especially your children who feel they are struggling. They don't intend to hamper your lifestyle, but you look as though you have *extra* that they need. And, they learned at a very early age how to get things from you. **Be prepared!**

Inside:

These concepts are so simple we tend to think they no longer apply in this high-tech, fast paced world in which we live. But, retirement is a time to take life a little easier, so maybe the concepts make sense again.

Next, all you have to do is to keep things in reasonable balance…you know, apple pie occasionally, broccoli more often.

Some people will need two million dollars to finance the lifestyle that their self-esteems demand and others will be very content with far less. We still think you would find a financial plan that included some numbers and some recognition of risks and some strategies in place very valuable, but the numbers, without an understanding of the basic concepts and a balance, in life are meaningless.

THESE FEET ARE MADE FOR WALKING…!

I believe a phenomenon is happening that we never thought we would see in the good ole USA…*homeowners* walking away from their homes and their mortgages in droves.

The news has been full of the implications and some of you may think this is old news. But, I'm not sure most of us realize how really big this may become and what is already starting to happen. And, it will soon impact many people we know! Thousands of *homeowners* have quit paying their mortgage payments or will quit making the payments over the next several months. No, I haven't delved through the government statistics to prove this. First of all most government statistics are very dated when issued or are mere guesses in the first place.

Why am I even bringing this topic up when I can't prove anything? One way we handle the emotion of bad news is to try and anticipate bad news events in the future. We think this is a different thought process than trying to predict what will happen in the future, but I suppose you could say the exercises are related.

It seems the social stigma of bankruptcy/foreclosure/credit card default has or is about to vanish, at least for a rather high percentage of our population. Just listen to the news…it isn't MY fault - it's the fault of the ugly BIG BAD COMPANIES. There are already websites aiding people in the foreclosure process, but I believe it is just beginning.

Here's an article from The *San Francisco Chronicle (March 16, 2008)*:

> *A Discovery Bay man said he is "upside down" on his house by about $260,000. "I refinanced a couple of years ago and pulled out $100,000 and put in a fabulous pool," he said. "Now, I've got this fabulous pool and fabulous house, but it's not worth anything. Why shouldn't I be building equity over the next four to five years instead of playing catch-up?" The man said he has not made a mortgage payment for five months. "I'm playing the bank game." He said what I'm really pushing them to do is to (adjust my mortgage) for the current market value and write-off the rest. I'd love (to have it) lopped down to a $450,000 basis rather than $7 10,000. If the bank won't negotiate, I'll walk away, the man said."*

Bill Gross, the media hungry manager of the PIMCO bond funds, states in his April 2008 *Investment Outlook* that "…home price declines of 20% are, in fact, much more of a shock to the American economy than the stock market drop of a few years ago, because the amount of homeowner leverage is so much greater. A 20% negative adjustment not only wipes out all the ownership equity for millions of Americans; it turns their homes "upside down" - incentivizing them to let their gardens grow weeds instead of lettuce. The decline needs to be stopped quickly in order to avert additional crisis."

Let's take a few sentences to review Mr. Gross's last statement about stopping the decline in home prices. I would like to see home prices stabilize and many of you would agree. But, just what do we/the government/the whoever do to control the price of homes? Do we pass laws saying you can't sell your home for less than it is valued at today? Do we give all new home buyers a big fat tax credit for buying a new home to help prop up the price of homes? The one hopeful solution that has been put into effect is to lower the interest rates to ease the burden on the adjustable rate mortgages. But, do we also lower the mortgage standards for whomever may qualify for a new mortgage?

> *One reason home sales are slow and will remain slow for some time is that Fannie Mae raised its minimum FICO score on most mortgages to 580. Fannie also decided it wouldn't accept borrowers who have missed two monthly payments in the past 12 months or who've been in foreclosure in the past six years. Fannie used to accept borrowers who had a foreclosure four or more years ago.*
>
> *Fannie's new standard not only makes it harder for new homebuyers to get a loan, it also makes it very hard for existing borrowers to refinance their adjustable rate mortgages. (Source: S&A Digest, April 22, 2008)*

How much lower can we lower our standards? It RAISED the minimum FICO (credit score) score to 580. You may not realize this but 580 isn't proof that you have, generally, even come close to paying all your bills let alone paid your bills on time. And, you have to have missed at least two of the last twelve payments…not merely been a few weeks late, but totally missed the payments to be unqualified for a new mortgage.

I believe the idea of walking away from one's financial obligations is going to get a lot of media attention and with it mountains of emotion on both sides…the plight of the downtrodden homeowner vs. the casualness of abrogating one's personal responsibilities.

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Some will cry that our morals have hit rock bottom and we are a doomed society. No one accepts any personal responsibility. Others will say that the BIG BAD COMPANIES deserve it.

(It varies some from one state to the next, but, generally, the residential real estate mortgages in this country are non-recourse, meaning the lender can take back the collateral, the home, but has no recourse to go after the other assets of the borrower.)

Which side is really right? I don't know. If I were a young couple who had lost my job and the only new job I could find was hundreds of miles away and I could not sell my home for enough to pay off the mortgage, should the system chastise me forever for walking away from my mortgage? If my husband died and I couldn't pay the mortgage or sell the home for enough to pay off the mortgage, should society *stone* me for walking away from my mortgage?

If I lied on the original mortgage application, should I get some sort of government assistance to solve my current problem? What if I had agreed to buy three beach condos with no money down and three big mortgages, should I get some sort of assistance to help me save my speculations? What if I was worth millions but the home I purchased at the very peak of the market is now down almost fifty percent in value, should I be able to walk away from the mortgage and then buy a new home at today's lower prices and suffer no consequences? What if I listen to aggressive radio talk shows and follow their advice and *trash* the home before I walk away, should I suffer no repercussions?

Apparently, there have been a lot of villains and a lot of victims created by the recent residential real estate price boom and subsequent bust compounded by the mortgage industry shenanigans. And, I believe the average Joe-on-the-street, encouraged by media and politicians, is ready to *hang* whomever/whatever they can blame for their pain. I hope this doesn't backfire and end up hurting almost all less-than-absolutely-perfect buyers in the future. It seems to me the more we *punish* the lenders, the tighter their standards will be in the future. They need to be tighter, but...

So, here we go. I don't know what the *solution* to the crisis will be but it seems obvious to me the ***prudent*** will end up paying for the ***irresponsible***. This *solution* will say something like...you pay all your bills and pay them on time, thank you...now you can contribute to the *solution* and help pay the bills of those who can't or won't pay their obligations. Thank you, again. (PS - I just made up the "thank you" part...you will never hear it!)

Foreclosure used to be the tactic of last resort. (John Pierpoint Morgan, sometimes considered the *founder* of our current banking system was quoted as saying, "Lending is not based primarily on money or property. No sir, the first thing is character.") Now, or at least soon, foreclosure will be considered an early option, and an easy option...why put good money after bad, the *homeowner* will ask as his home declines in value. Hopefully, you can sit back and watch this play out on the stage of life and not be personally involved. If so, enjoy the drama, because I think we will be paying for the entertainment.

The Financial Market CYCLES

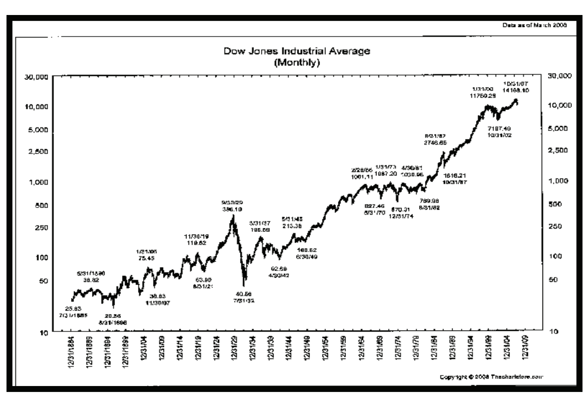
We are not talking stock brokers riding Harley's Hogs here; we are talking about cycles of the financial markets. Repeated changes equal a cycle. For example, our business cycle is made up of expansions followed by contractions. This cycle has been playing out for decades and we spend a lot of time trying to avoid the contractions, but they always seem to happen after an expansion.

The stock market works in a similar fashion. Have you ever noticed how significant declines in the stock market frequently follow rousing up markets?

It also appears our climate has patterns that may be called cycles.

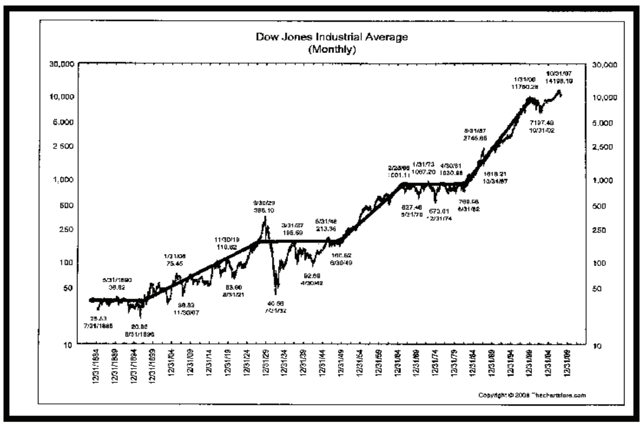
> *In a 1975 story, Newsweek reported:*
> *The evidence in support of these predictions has now begun to accumulate so massively that meteorologists are hard-pressed to keep up with it. In England, farmers have seen their growing season decline by about two weeks since 1950. Last April, in the most devastating outbreak of tornadoes ever recorded, 148 twisters killed more than 300 people. To scientists, these seemingly disparate incidents represent the advance signs of fundamental changes in the world's weather. The central fact is that after three quarters of a century of extraordinarily mild conditions, the earth's climate seems to be cooling down. Meteorologists... are almost unanimous in the view that the trend will reduce agricultural productivity for the rest of the century. If the climatic change is as profound as some of the pessimists fear, the resulting famines could be catastrophic.*
>
> ***On Feb. 2, 2007,*** *the United Nations scientific panel studying climate change declared that the evidence of a warming trend is "unequivocal…"*

Frequently, when referring to stock market cycles, or expansions and contractions, we think in terms of three or four years. However, there are many in the financial world who would argue that these three or four year "cycles" are merely ups and downs within a much longer cycle, and to be successful in the longer term you need to recognize the longer cycles or what are sometimes called mega trends. Here is a chart of the Dow Jones Industrial Average[1] since it's inception in 1895. The original index included names like: Chicago Gas (now Peoples Gas), General Electric, US Rubber (now Uniroyal), American Cotton Oil and US Leather.



Now, let's look at the same chart, but this time I have drawn a bold line through what appears to be some of the longer mega trends. You can see how the stock market expands over many, many years and then goes into a volatile sideways pattern for many years. Many now assume **we are currently in a rather volatile sideways pattern.** We agree with that thinking.

During this volatile sideways pattern you need to invest quite differently from a market that demonstrates a strong, upward growth trend. Look at the chart and see what you think.
If you are interested in reading more about these cycles you may want to get Vitaliy Katsenelson's book, *Active Value Investing: Making Money in Range-Bound Markets*, or John Mauldin's book, *Bull's Eye Investing.*



[1] Dow Jones Industrial Average is an unmanaged index that cannot be invested into directly.

THE "GOODS" GO BOTH WAYS!

It was huge - moving slowly outbound on the Savannah River. I couldn't tell how long the ship was, but it was far longer than a football field. (I later learned that some container ships are over three hundred yards long…three football fields, for you non-sports enthusiasts.) AND, it appeared to be loaded to full capacity with those ugly metal "containers." I was thinking… what's up with this? It is full and leaving the port; aren't we supposed to be importing far more than we export in this country?

Ideas and information for this article came from the story "Claiming No. 2 export spot" that Urvaksh Karkaria wrote for the ATLANTA BUSINESS CHRONICLE in the March 28, 2008 edition. Other information came from websites of the various companies mentioned, the US Department of Commerce and Exporters, the US Department of Transportation Maritime Division and Importers in Georgia on ThomasNet.com.

Our exports of goods and services to other countries are booming. Apparently, the *weak* US Dollar, the re-aligned US manufacturing companies and the increasing standard of living among the rest of the world is creating strong demand for things made in this country.

Most of us assume that, if we go into the local Wal-Mart stock, we are looking at aisles stocked with goods made in China. So we know what we are importing, but just what are we exporting? (Actually, Wal-Mart claims they import less than fifteen percent of their merchandise from China; however, the company's very aggressive opponents say it is much higher, but let's don't let that stop this story.)

Just what types of things are we exporting?

I am using Georgia companies for the story as that information is more available. We recognize that this Report goes to readers in many states and are not intentionally excluding any region.

The main port in Georgia is the Port of Savannah. Last year it was the nation's fastest growing port with a growth rate of over twenty-five percent. For your information, the next fastest growing port was Norfolk, VA. And, apparently, the Savannah port has a lot of room available for increased capacity in that the current volume is about one-third of the maximum container capacity of the port.

If you are curious, the six largest **container** ports in the country are:

Long Beach, CA	New York, NY
San Francisco, CA	Norfolk, VA
Charleston, SC	Savannah, GA

If you look at a list of the largest **tanker (oil)** ports, you would see that it is dominated by the Texas ports along with New York, Philadelphia and New Orleans.

Back to our story, just what types of things are in those ugly medal boxes on the container ships leaving the Port of Savannah?

- **Americo Manufacturing Company** of Acworth, GA manufactures floor cleaning pads. Think of walking into the mall and looking at the shiny floors. Most likely those floors were cleaned with Americo pads attached to a polishing machine. The company sells a wide variety of cleaning pads to users all over the world and don't think these are merely old rags glued to a pad…today's cleaning involves using high tech pads.
- **DeVale Industries, Inc.** of Lawrenceville, GA manufactures controls that measures temperatures of surfaces and liquids along with switching devices for regulating residential and commercial environments.
- **Control Products, Inc.** of Dalton, GA manufactures equipment that does bar coding, equipment that provides temperature and humidity testing along with various other testing and control equipment.
- **Kubota Tractor Corporation,** the Japanese firm with manufacturing plants in Gainesville, GA and Jefferson, GA, manufactures commercial lawn equipment, tractors and construction equipment, such as front-end loaders. Much of this equipment is exported from these Georgia plants to Canada and Europe through the Port of Savannah.
- **Winton Machine Company** of Suwanee, GA manufactures tube bending equipment, much of which is exported to Asia.
- One exporting company we may relate to better is **AJC International** which has headquarters and administrative offices located a few blocks from our office. (Fortunately, for all of us, their processing plants are located elsewhere.) AJC manufactures, markets and transports frozen

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and refrigerated food products. Their products are consumed all over the world with a recent growth spurt in *chicken paws* being delivered to China.

Where do all these exports go?

GEORGIA EXPORTS—2007

Canada	$	4,384,221,968
China	$	1,599,661.361
United Kingdom	$	1,247,281,983
Mexico	$	1,228,159,084
Japan	$	1,160,654,279

According to the *Atlanta Business Chronicle* story, "the volume of US goods headed to China from Savannah can mean long wait times for exporters." The Americo CEO was quoted as saying "...there's so much product leaving the Georgia port, we're actually in line three to six weeks waiting for an open space on a vessel." (I do hope the chicken parts get to move to the front of the line!)

The listing of exporting companies above intentionally left off some of the big export products like forest products, paper products, agriculture and cotton only because those are what most of us think of when we think of Georgia exports.

Many of the exports are rather high-tech goods manufactured by mid-size companies. This apparently reflects two trends we are going to hear a lot about in the future; the rising labor costs are pushing many foreign companies to boost their need for automation and the rise of smaller, high-tech US companies that are becoming our new manufacturing base. Keep an eye on both trends.

I'M RUNNING OUT OF MONEY! ...what would YOU do?

"Phil, I'm retired, I'm running out of money and I'm scared! If you were in my situation, what would YOU do?

I have spoken with several people over the last couple of years about this, including a couple of clients. They all seemed aware of their situation, at least the rational part of their brain is aware of their precarious financial situation, but most have done nothing. But, this is the first time someone actually asked me **"What would I do?"** Let's see.

The assumed background: I'll assume I retired a few years ago with what I thought was an adequate retirement "nest egg." However, the financial markets became very volatile and interest rates dropped to almost nothing. Given that scenario I should have drastically reduced the withdrawals from my investment accounts, but I didn't or couldn't due to my high fixed expenses or other reasons. Now, I find my withdrawals will deplete all my investments within a few years and I will be left living on social security and nothing else.

What would I do?

This is not a particularly easy exercise for me to do, because this is just where I never want to be. The vision of seeing myself living on a *discounted* social security check and having, literally, no choices in life is extremely haunting to me. (I use the word *discounted* before social security because most people in this situation elect to take early social security, at age sixty-two and suffer the twenty-five percent discount for their entire lives.) But, let's continue.

Overview: First of all, drastic, quick action is necessary while there are still some assets left. I must work to preserve those assets, because I will need whatever diminished income they will produce the remainder of my life. I must face reality.

Step one is to get an inventory of what I have (income and assets) and what I am spending. I would put this in writing in my notebook.

Step two would be to list all conceivable options. I would write down every possible thing I could think of that may allow me to reduce my withdrawals or change my lifestyle. I would carry the notebook with me every where I go and make notes of whatever pops into my head. Even options that I don't like or don't seem feasible would show up in my notebook. I would go to the library or use the Internet to see what others have done or are doing. I would read books like "How to Simplify Your Life" and "You're Broke Because you Want to Be." (I don't particular like the title of the second book, but it is a simple, powerful book.) The image of me old and broke and pitied would motivate me to be very creative and resourceful.

Step three would be to talk to friends and see if they have any ideas. Probably a few are in a similar situation. And, maybe I have to get my children involved even if I don't want to go that route.

Step four would be to continue this exercise for a period of time... maybe a month or two to let it settle in my mind and allow me time to explore new ideas.

Finally, I would make decisions. If the decision meant that I needed to move, I would move. If the solution was that I needed to earn income, I would get a job. If I had to get new friends, I would get new friends. I would do whatever it took to not end up totally broke and dependent on "the system" for the remainder of my life.

I watched my parents live a lot of years in retirement with very modest income. They were happy mainly because they lived among others of similar financial status.

I also watched a friend who suffered all sorts of illnesses and maladies during his retirement, everything from mysterious muscle pains to constant joint pain. He lived in a very nice place in a very nice neighborhood and hung around people who were far more affluent than he and his wife. I was with him one day and, as he unconsciously massaged his aching shoulder, he said to me "I worry about having enough money from the time I wake up until the time I go to bed."

I will do whatever it takes - so I will not live my retirement years worrying about money every hour of every day!

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