

## 10 Tips On How to Retire Once

by Robert J. Reby, C.F.P. and author of Retire without Worry

### 1. Redefine the word *safety* in the context of your money.

It's really important to maintain your purchasing power, and that's what we think safety is all about. We all know that the cost of living increases over time. A good example is that today's postage stamp is 37 cents. In 1974, it cost only 8 cents. So if you talk about inflation based just on what postage stamps cost, that's an average of about 5.62% per year since 1974. When the government comes out with statistics that say inflation is under 3% on average, you have to think about what it is actually costing you out of your pocket. If we use the 5.62% per year that postage stamps have actually increased since 1974, figure that a dollar in 1974 would buy you only 22 cents' worth today.

### 2. All of our common sense and life experience tells us that owners of good businesses make more money than lenders to good businesses.

That is another way of saying that share owners of good businesses make more money than bond holders. This is about owning equity. If we look at the Standard & Poor's 500 as an example of owners and U.S. Government bonds as an example of lenders, you'll find that owners returned, on average, seven times the rate that lenders returned for the period of 1925 to 2001.

### 3. The real long-term risk of equities is not owning them.

If we look at the S&P 500 from 1925 to 2001, and we take all the 15-year time blocks during that period, we see they all have positive returns. If you look at the 10-year time blocks from 1925 to 2001, over 99% of them have positive returns. From 1975 to 2001, the Dow Jones Industrial Average grew tenfold. The cost of living tripled. So it is important to own equities to reach your financial goal.

### 4. Investments based totally on fixed-income instruments (i.e. CDs and bonds) in a world with rising costs is a very poor strategy.

Interest rates can go up, they can go down, or they can remain the same. If they go up, you can increase your purchasing power. If they remain the same or go down, you're actually decreasing your purchasing power. So with fixed-income investments, there is a two-in-three chance that you're going to lose purchasing power over time.

### 5. Do you want to draw 6% from an asset class whose total return has historically been 6%? Or do you want to draw 6% from an asset class with a total return of 11%?

We find that most investors are interested in the rates of return from their investments. So, is it best to draw 6% from an asset class that has a total return higher than 6%? Yes. It is important to be able to structure a plan that allows you to take income while still earning money on your investments.

### 6. Volatility is not risk. Temporary decline is not loss.

I know a lot of people who would argue against that. We like to use an analogy in regard to real estate. Most people have a good portion of their net worth tied up in real estate. Let's say you owned a rental property. The value of that rental property is \$500,000, and the rent was yielding you 5% income, or \$25,000 per year. If that rental property declines 8% in value, to \$460,000, how much income do you get from that rental property? The same. You don't go out and write new leases and give your tenants a break. You still get the same income that you were receiving before.

### 7. Investing in the rear view mirror is the closest you'll ever get to guaranteeing under-performance.

Many people are doing individual investing. They'll look for investments and they will say, "Wow, look at that investment go up. I want to buy it." And they'll say the same thing on the downside: "Wow, look at that investment decline. I want to sell it." So what are they doing? They're buying high and selling low. We all know that you want to buy low and sell high. Buy—not what is high now, but what is low.

### 8. Economic slowdowns or recessions create opportunities for those with financial knowledge and the boldness to act.

So again, buy low—sometimes that takes a bit of boldness. And it really is capitalism at work. People who sell their stocks out of fear instead of knowledge are being taken advantage of by those who have the knowledge. So spend some time looking at why things have gone up to where they are—are they overpriced? Are they underpriced? Why have they gone down? Maybe they are out of favor or maybe they don't react well.

### 9. No one can time the market. You have to be in it—and stay in it—to win it.

Buying and holding over the long term really does work. In addition to that—as it goes with market timing—there has been a lot of research done on how much effect the return of long-term investors is attributable to market timing. Specifically, it has been shown that market timing only attributes about 1.7% to your return. And 2.5% of your return is attributable to security selection, and 93.6% is attributable to asset allocation.

### 10. Build confidence in professionals who can help you handle your emotions.

Managing your money is an emotional burden. Emotions can range from fear to greed. Therefore, it is important to put your trust into a certified financial planner who can put you on the best financial path to reach your retirement hopes and dreams.

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