CHAPTER 2

THE WALL STREET SHUFFLE

BY BLAIR AARONSON

When I was informed I would be writing a chapter in Steve Forbes' upcoming book, I experienced two instantaneous emotions. The first was great pride, knowing I'd attained a kind of hallmark moment in my business career. The second was trepidation, as I could hear that inner voice whisper, *"How can you impact the everyday investor in a few short pages?"* I had to get that feeling in a headlock to give me the inspiration to move forward.

"Yes," I said to myself, *"it is possible to shift the belief of the everyday investor—provided I show solid facts and give them an interesting learning experience!"*

So, without further ado, let's take a little trip in the newly-upgraded time machine.

NOW BOARDING!

Watch your step as you climb in, now. Grab a window seat if you like. We're setting our course for New York City, New Year's Eve, 1972. Everybody in? Buckle up…Here we go!

There now. That wasn't so bad, was it? I know things look a little different in 1972. Lord knows the music is different! Oh, look. There's the stock exchange. Let's take a stroll over there. One thing that hasn't changed in four decades is the non-stop hype surrounding the market.

We're going to visit today with William Broadmore, a successful builder.

This New Year's Eve is quite different for the Broadmore family. You see, William is retiring this year. Yep, he's calling it quits after 35 years of breaking his back. He's got the world by the...well, you know what I mean.

(Now remember, we have to follow a few simple rules on this journey. We can't disclose we're from the future. For some, it may be hard to keep quiet and not reveal what we know to be the truth. This is a case where self-control is the word of the day.)

We're meeting with Bill and a few of his buddies at the club for lunch. The talk at the table centers on what it's like to be wealthy in the 1970s. Sitting to my right is William's stock advisor, Anthony Brown, who also advises all of William's buddies. I took a deep breath and demurely asked, "What do you think of this market, Anthony?"

Without even waiting till he finished chewing his dinner roll, he blurted out, "Lovin' it. Lovin' it!" How I wanted to say, "You're a fool who's about to learn a hard lesson!" But I held my tongue.

The conversation at the table continued in a back-and-forth rhythm. "You know, William," Anthony said, "we've been averaging about 9-10% a year for quite a while now. It'll be smooth sailing if we only have a 5% withdrawal rate to cover you and Mary through retirement."

I almost used one of those dinner rolls as a gag to stop myself from using Anthony's tie as a noose! You see, William had been taught by his co-workers, his golf buddies, his tax advisor and his brokers the "qualified plan." You know, the tax-deferral route was the only way to go. After all, tax-deferred is almost like tax-free, isn't it? (I know, I know—that's a different conversation.)

So, after 35 years of work, William has about $2 million in the latest and greatest mutual funds, all hand-picked by Anthony the Great! Anthony reasoned that $100,000—which is 5% of the plan he recommended plus Social Security and Dorothy's little pension—should be plenty to take care of the couple for their remaining years.

Unfortunately, the conversation William hadn't had with any of his trusted advisors was the one about sequence of returns. Since my first days as an advisor in 1985, I have yet to see Wall Street recognize the major importance of this issue. The focus has always been on average rate of return and the "buy and hold" mantra.

Before we leave New York, you'll see firsthand the foolishness of ignoring sequence of returns!

AIR-SICK BAGS ARE IN THE SEAT BACKS.

As the New Year's Eve celebration comes to an end, the business of life proceeds apace. With no more income from the business, William begins to take his needed distributions from his IRA. Just as he prepares to deposit his first distribution check, the U.S. economy hits a snag. By the end of 1973, the S&P 500 suffers a dramatic loss of 16.58%.

Now pay attention as the lesson unfolds before us. In prior years, that 16.58% downturn would have had absolutely no impact, as Bill would have had ample time to recover. But those days are gone, as he's now in distribution mode. Bill is forced to take his distribution in the midst of this pullback; thus he's now selling and locking in a loss.

As a matter of fact, after year one, our account value of $2 million is sitting at $1,565,980, and we only took out $100,000. Of course, Anthony is singing his favorite tune: "Hang in there, Bill. Market's coming back. Remember: We're in it for the long haul!"

The Broadmore family has no idea of the financial Titanic that awaits them. In a sad comparison, once the iceberg was spotted, no one thought it capable of bringing down such an engineering marvel—just like one bad year was never thought to be enough of a force to destroy 35 years of saving and planning!

A quick trip just one year ahead, folks. Enjoy the snacks we've provided in the seat pockets (that's also where you'll find the air-sick bags).

New Year's Eve 1974 brought more chill to the coast, and along with it, devastating continuation of the perfect storm. The S&P 500 ended the year down an additional 27.57%, and the Broadmore account now sits at $1,051,191. That's a million-dollar loss after taking only $200,000 in distributions.

It's probably painful for you, even as mere observers, to see the stress lines in William's face and his attempt to remain positive in front of his family and friends. Anthony is holding fast to his "buy and hold" mantra, and William is just too overwhelmed to do anything but maintain his unwavering faith in Anthony – and of course, in the market. Sadly, $100,000 is no longer a 5% withdrawal rate; it's now 9.51%—an almost impossible rate to keep pace with.

(I see some of the group is looking a bit bewildered. Is this new information for you? I apologize for forgetting that most advisors don't have this conversation with their clients during the planning phase of retirement.)

I suppose we should get on with the outcome here. It's time to set a new destination: New Year's Eve, exactly 20 years from whence we started. That's it—1993! Thank g-d there won't be any more bell bottoms and disco. At least we can have some sushi on this pit stop!

Sorry for the bumpy landing. With 1993 just hours away, let's look over William's shoulder, as he is currently in a closed-door meeting with Anthony and his attorney. You see, William's account now sits at a mere $171,423.00. He will be broke in one year! And YES, it was 100% avoidable if he had been working with someone who understands what I understand!

Pardon me for being direct, but this is what separates me from Anthony and every other advisor who is ignorant about how money works in distribution mode during retirement!

HISTORY OF THE S&P 500 INDEX

December 29, 1972	15.6%
December 31, 1973	-17.4%
December 31, 1974	-29.7%
December 31, 1975	31.5%
December 31, 1976	19.1%
December 30, 1977	-11.5%
December 29, 1978	1.1%
December 31, 1979	12.3%
December 31, 1980	25.8%
December 31, 1981	-9.7%
December 31, 1982	14.8%

December 30, 1983	17.3%
December 31, 1984	1.4%
December 31, 1985	26.3%
December 31, 1986	14.6%
December 31, 1987	2.0%
December 30, 1988	12.4%
December 29, 1989	27.3%
December 31, 1990	-6.6%
December 31, 1991	26.3%
December 31, 1992	4.5%
December 31, 1993	7.1%

I see some of you hanging your head watching William's wife Dorothy in tears as their accountant and attorneys bring her out of the dark and reveal the unthinkable. The reality is that they are broke—just a stone's throw from destitution.

But wait! When we get back home, will some of you still insist on wearing the same shoes as William Broadmore and drinking Anthony's blend of Wall Street Kool-Aid?

When I left the Wall Street mindset after 16 years, I vowed I would never utter the phrase "Hang in there, Mr. or Mrs. Jones! The Market's coming back; you're in it for the long haul!" As I write these words, I can honestly say I've never broken that promise (after fourteen years and two stock market meltdowns).

So, I ask you: What if you found out that what you thought to be true about retirement planning turned out not to be true? When would you want to know? I wish I could have been there for William and Dorothy, but to be honest, I see their carbon copies several days a week! Unfortunately, it's a very hard lesson that too many people have yet to learn.

HOME SWEET HOME

Oh, I see the shuttle has arrived to take us back to the time machine. All of you will be given a voucher good for a complimentary evaluation of your retirement plan. (This will be an hour well spent, if I do say so myself!) I'd like to take this opportunity to thank all of you for accompanying me on Retirement Thru Design's Reality Check Tour, where you get to see how your belief system really panned out for other like-minded folks!

While we're loading the bags, I'd like to take a moment to tell you a bit about some of our other tours:

1. **Is Paying Off Your Mortgage In Your Best Interest?** This is a three-hour tour where you'll be able to see and validate that the rate of return on home equity is 0%. This tour is not for the squeamish, as you will witness two couples who used very different mortgage strategies. Sadly, one couple subscribed to the American Dream of the 1940s and learned they had given up 100% of the control of the equity in their home after retirement. The other couple built a side bucket of money that was 100% accessible, and it was tax-free. (A light meal is served on this tour.)

2. **Was a 401K/IRA My Best Retirement Option?** This is by far our most popular tour, as it's only two hours long. We'll visit three individuals and watch two of them experience the devastating reality of a higher tax bracket in retirement combined with market risk and inflation risk. The third individual is the one who paid taxes and built a large bucket of tax-free funds in a maximized life insurance policy. It's a powerful tour that gets right to the heart of the greatest lie ever foisted on the American worker: tax deferral (or as I like to call it, tax postponement). Who would ever sign a blank check that will only be cashed 30-40 years down the road? No one knows what bracket they will be in or the tax write-off they will have. (Beverage service only; 24-hour reservation required due to demand.)

3. **Will You Unknowingly and Unnecessarily Transfer Away $500,000 Through Poor College Funding, Mortgage Structure, and Retirement Planning?** When I read that Facebook founder Mark Zuckerberg had just refinanced his house, I began to wonder if his advisor had taken one of our tours recently. Fortunately, the everyday mom-and-pop investor can use the very same planning strategies that super-wealthy investors have used for the last 100 years. In the words of one of our favorite tour guests, "It's quite elementary, dear Watson: You are either a customer of the bank, or you ARE the bank."

4. **It is estimated 90% of Americans still believe compounding money in a taxable account is both prudent and sure fire way to build wealth!**

Join us on our flagship tour as we reveal the lie that truly is the "Dark Side of Compounding." We will follow two families. One who had chosen to follow the "let it re-invest" long tem and we will just pay the tax out of our pockets. The other family was well aware of the nightmare this creates and chose to roll the money over a period of years into a tax-advantaged account. This simple strategy not only minimized the taxes due every year but also substantially scaled back the lost opportunity cost on those dollars! The final outcome will raise your blood pressure for sure! If you are prone to outbursts of anger due to lack of proper advice from your C.P.A. or advisor we do NOT recommend this tour!

On that note, I'd like to share a quote from my favorite Doctor!

Sometimes the questions are complicated and the answers are simple.
~ Dr. Seuss

Be well.

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About Blair

Blair Aaronson, Founder of Retirement Thru Design has been helping So.Cal. investors reach their retirement and estate planning goals since 1985. Over his 29-year career he has worked for the largest brokerage firms in Beverly Hills, Los Angeles and Century City. Blair has also worked with several of Southern California's largest law firms that regularly refer their clients to Blair.

His concepts are straightforward and have proven to be 100% effective during the most trying markets in the last Quarter Century. Blair is a Certified Estate & Trust Specialist. Blair currently has his own radio show *The Financial Bottom Line* every Sunday morning on local radio KEIB 1150 AM The Patriot. The radio show is educational where listeners are taught about Wealth Transfers that are occurring and how to re-direct this funds back in to their lifestyle to enjoy!

Blair receives cards and letters on a regular basis giving thanks for protecting his clients during 2008 when not one of his clients lost a PENNY! Blair believes the brokerage community has failed terribly at protecting the senior's life savings. Sometimes a second set of eyes can shed new light on the existing plan and bring new valuable information to the table.

And remember...It's NOT what you DON'T know that can hurt you, but rather what you thought you did know! Blair is also an award winning pianist and composer.