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A SMALL PROBLEM (FOR NOW)

Inflation can take it's toll on your nest egg.

For people who lived through the harrowing double-digit inflation of the late 1970s, news that the inflation rate was 3.5 percent for the 12-month period ending last November was probably greeted with a shrug. Aside from gas prices, you probably didn't even notice any rise in consumer costs in 2005. A consensus of 50 leading economists forecasts the rate to even slow down a bit through 2006, pegging the rate at 3 percent for the year. While that's probably not going to make much difference in your purchasing power come next Christmas, it definitely has an effect on your longer-term goals.

In particular, inflation's effect can be steady and corroding for people in retirement. Most of us will be almost wholly dependent on our investments' return during our retirement years. That little 3 percent inflation rate can be like a crack in a bucket, leaking away your nest egg without even making you aware that the money is slipping away.

Complicating the situation is the fact that people are spending more time in retirement than ever before. Given life expectancies for people who reach 65, if you retire at that age, you need to be prepared for 20 to 25 years that you will spend retired. It's in those longer time frames that inflation can really become a problem.

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WEARING AWAY YOUR SAVINGS

When inflation is compounded it becomes a burden.

Let's take a simple example: Say you expect to need $100,000 per year to live on during retirement. For the first few years, the 3.5 percent inflation rate we've been living with won't really get your attention. But as time goes on, and that inflation is compounded, it starts to become a burden. By year 13, when you are 78 years old, you will need more than $150,000 to have the same purchasing power as your $100,000 gets you today.

And after that, the numbers get really scary. By year 22 of retirement, inflation has caused your needs to double, and your original $100,000 lifestyle now requires more than $200,000. If you're lucky enough to hang on till year 33, deep into your nineties, the

amount required to match that $100,000 will have tripled, to $300,000.

Those figures presuppose that the inflation rate stays right around today's level of 3.5 percent. There's always the chance, of course, that Seventies-style inflation will return (and the longer you project out your retirement, the more likely you are to encounter one of those high-inflation years). If that happens, the value of your money can start to decline twice as rapidly, or even faster.

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PREPARE FOR THE WORST

The purpose of this newsletter isn't to scare you. It's to make you aware that there's more to be concerned about than the rate of return you're getting. Retirement calls for more than just investing: It requires a strategy. A well-thought-out plan will help you weather the hard times because you have considered everything, both good and bad, that could possibly occur.

A good retirement requires a good strategy.

That's the outlook we provide at The Ferrucci Company. We're realists, taking the measure of each of our clients' situations and preparing for all the possible outcomes. Our primary goal is to make your future as bright as possible, but the only way to mitigate the rainy days is to be prepared for them.

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To learn more about how we can help safeguard your future, please take a look at our Web site at www.ferruccicompany.com or send an e-mail to david@ferruccicompany.com or paul@ferruccicompany.com. Or simply give us a call at 800.633.3051.

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