



# How Will This Recession Impact Your Retirement?

## Safe Harbor Retirement Planning

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# How Will This Recession Impact Your Retirement?

The 7 most important strategies every retiree should know in order to survive in today's tough economic crisis.

*As someone who is invested in the stock market, you are probably suffering from the same anxieties and concerns that my clients have expressed to me. In my 22 years of providing retirement planning advice to those who are about to retire, or are already retired, I have found that there are common mistakes people make. If you focus on the following strategies, you may find that you maintain financial confidence during these very difficult times.*

## 1. Have a Plan

When times get tough, particularly when the stock market creates such havoc with one's investments, it is easy to abandon your plan. That is, if you even have a plan at all. A staggering number of those facing retirement have no plan and are basically flying by the seat of their pants.

For those of you who have gone to Disney World in Florida, you probably spent a significant amount of time putting the trip together. You determined how much you wanted to spend, how long you would be down there for, where to stay, what rides you wanted to go on and what entertainment would fill your nights.

As a matter of fact, you probably have spent more time planning this vacation than you did planning your retirement.

How DO you know if this market has had an impact on your retirement if you don't have a plan in the first place? Have you lost money? Probably. But that is not the overriding question. The real question is - What is the impact of losing that money on your ability to lead your retirement lifestyle? This answer is different for everyone, and the adjustments to the planning - and it is often necessary to make adjustments during economic times like this - will vary.

Do you need the income from your portfolio now? Are you planning on spending significant amounts of money on additions to the home, or go on a cruise or buy a 2nd home? Are you getting enough of a pension now that you do not need to dip into your nest egg at this time? Are you more concerned about preserving the assets for your heirs than you are in generating income?

What is your priority? I ask 3 BIG questions of my clients.

First, can you afford to retire in the lifestyle you desire? This means that you have to spend time understanding how much income you need, and whether you are going to be able to generate that income now, and in the future.

Second, when I am gone, will my surviving spouse be all set? This entails not just looking at the income and the investments, but how the assets are titled and how well you have planned for the proper beneficiary designations and tying them in properly to the investment side of your planning.

When times are at their most hectic is when a properly drawn out plan is of most value. It can be the foundation that will allow you to sleep at night knowing that you are doing all you can to accomplish your goals, and that you are making the necessary adjustments along the way.

## 2. Have Sleep at Night Reserves

We have all heard the expression that "cash is king". Well in tough times, it could not be more important.

We all have a "wealthy" friend or acquaintance, or read the headline about the person who has accumulated their assets in real estate or built a successful business. They are living high off the hog while things are going great. But even with their millions, when the same markets that made them wealthy go bust, if they have no cash and all of their "wealth" is illiquid, they could be out in the cold.

In tough times like this, he or she who has enough cash can sleep at night. I am not saying sell everything and put it in cash or cash equivalents. This is not a good time to sell - we don't want to lock in our losses. However, you need to do the planning to understand how much you need to keep in reserves.

Many of us had that thought that if the crisis of the financial sector got really bad, would we have enough access to



cash to lead our lives - not forever, just enough to buy the groceries and pay the bills for a short period of time if the proverbial you know what hit the fan. Well it has not come to that, and I don't believe that the great depression is upon us, however, it is important to take the necessary steps to bring financial confidence to you RIGHT NOW. And having the "right" amount of instant liquidity is the key to a good night's sleep.

Defining the emergency reserves is more important now in these tough times.

### 3. Putting Events Into Perspective

Taking the emotion out of the decision making process is one of the most important strategies in times like this. I will address this in two different ways.

First, I hear all of the time that "this time is different". At some level that is true. We really have not been faced with the very underpinnings of Wall Street and the financial industry failing since the Great Depression. For a two week period you could smell the fear as one devastating headline after another hit the airwaves. However, it is widely assumed that we will be facing a global recession, not a repeat of 1929.

And, to bring an historical perspective, the financial world has been faced with potentially devastating news before.

In the '60's we faced the Cold War, the Bay of Pigs and the Cuban Missile Crisis.

In the '70's we were hit with staggering inflation that was fueled (no pun intended) by the formation of OPEC. Personally, I remember buying my first condo for \$49,500 and paying 18% for the interest rate, then was thrilled to have refinanced for only 13.5%. My how times have changed.

In the '80's we faced the worst recession in 40 years in 1982, a market crash in 1986 and another mini crash when the Berlin Wall came down.

In the '90's the Persian Gulf crisis, the Soviet Union collapse and the Asian economic turmoil.

This decade we faced the tech bubble bursting, 9-11, corporate accounting scandals (can you say Enron, Worldcom and Arthur Anderson), war in Iraq and soaring oil prices.

Further, since 1957 we have faced 15 bear markets that have lasted on average 11 months that brought on average a 29.4% market decline. However, we have also been rewarded with 15 bull markets that have lasted on average 30 months and produced on average 112% gains.

Yes, this time is different - but we have faced enormous challenges before and will again. Do not let the emotions of the time drive your decision making process.

Second, it is important to go back to your planning and let your "retirement roadmap" dictate how you respond to tough economic times. Too many people abandon their planning in times like this when they don't fully understand how markets impact their planning - they tend to feel paralyzed and either freeze (and do nothing) or react emotionally ( and sell at just the wrong time).

I had a conversation with a client who was very upset about the loss of value of his portfolio. He was ready to pull the plug, when I asked him to come into my office so we could talk.

When we went over the planning assumptions, he was able to calm down. For the reality of it was that currently he was not taking any income from his portfolio, nor did he have any intention of doing so. His "retirement roadmap" that we had developed during the initial stages of the planning indicated that this account was to be passed onto his heirs - he did not need this money for current or future income.

So, when we took the emotions out, realized that the loss of value was not going to impact his lifestyle, and that we could reasonably assume that he and his wife would probably live, under normal circumstance at least another 15 years, then we could reasonably assume that the value of the portfolio would probably be recaptured, and more so.

Without understanding the underlying planning assumptions, we could never have brought the proper perspective to them. When they left, they still were not



happy that the market had brought down the values of the account, but completely understood that it had no immediate, or future impact on the planning. The proper perspective helped to calm their nerves, and their fears.

## 4. Making adjustments to the asset allocation

These are times that redefine everyone's sense of risk. When the reality of losing 20%, 30%, or 40% of a portfolio hits you square in the face, it is very different from seeing hypothetical illustrations that project only the possibility of such a decline. And, for those who continued to hold all of their assets in their company stock, they could have been hit with even more of a loss (can you say Bear Stearns dropping from \$140 to \$2 per share, and they were not alone).

If there ever was a time that it was important to have diversification it is now. That doesn't mean that you were saved from the declines in the markets, equity and bond alike, but it does mean that if you were properly diversified there was some buffer. (Of course investors should note that diversification does not assure against market loss and that there is no guarantee that a diversified portfolio will outperform a non-diversified portfolio.)

So what do you do now? Now that your portfolio value is down, the worst thing you can do now is sell, right, isn't that what "they" say? Well our experience with our clients should shed some light on what you might want to do.

First of all, the 20 year annualized returns for the S&P 500 stands at 11.9%, for REITs is 12.6% and for the EAFE (Europe, Asia and the Far East) is 7.9%. However, the average equity investor during those same 20 year periods has experienced a 4.5% return. (1)

Why has the average equity investor underperformed the indexes - because he/she was "smarter" than the market, and sold during tough times (the lows) and bought when the market was recovering (the highs). So as mentioned previously, do not allow your emotions to dictate your asset allocation decisions.

You need to go back to your planning to decide what is the most prudent move to make, and that is what we do with our clients.

If you need to generate income from the portfolio, you have certain decisions to make. If you do not need income now, but will need it in the next 5 years, then you have a different set of decisions to consider. And if you do not need income at all from one or more of your accounts, then you will have other choices to consider.

When we sit down with our clients, we go back to the planning to find out what their planning dictates, and then let the planning lead us to make the necessary adjustments to the portfolio.

I have always believed in allocating alternative investments to portfolios. If it has been good for the major institutions and endowment funds such as Harvard, Yale and California Pension fund (one of the largest endowments in the nation) then why not employ a similar strategy for your portfolio. They utilize upwards of 30% of their allocations to alternatives in an effort to try to minimize the downside impact of markets while at the same time hopefully participate when markets are going well.

Unlisted REIT's, managed futures, commodities and currencies are just an example of some of the alternatives available that could become a part of one's portfolio. And in times like this, it is vitally important to bring as much diversification to your investment nest egg.

If there was ever a time to learn the lesson of diversification - it is now. Make the necessary changes to put you back on track with your "retirement roadmap".

## 5. Financial Coordination

In times like this when everything seems out of order, when there seems to be no rhyme nor reason to any of the financial markets, it can bring a sense of chaos to your personal life as well. Organizing your financial affairs, now, could help you to regain some sense of stability.

If you are like me, you have that shelf in the closet that has become the collection area for all of the incoming mail. All of my insurance renewals and various financial documentation, for years, went into the "pile" in the shelf. I knew I had everything, but I really didn't know what it meant or even if I could find the right paperwork when absolutely needed.

So I designed the Financial Organizer System for our



clients, and it, or some version of it, could help you. We physically organize all of our clients financial documents, and the benefits of doing so are helpful at several levels.

First, we shred all of the old “stuff”. I got rid of 6 inches of old insurance renewals alone when I did my own organizer. I now have all of the newest renewals only.

Second, we organize all of the documents into an orderly workbook. The sections we use include emergency contacts, estate planning, investments, bank documents, insurance documents, taxes, titles and deeds, warranties and contracts, and misc.

Now our clients have a place for every new document that comes in and can purge the old ones. Additionally, we scan the documents into a virtual vault. So if the client has lost a credit card while on a trip to Europe, or if they fall ill and members of the family have to access information immediately, then they can go onto their password protected web site and access not only the pertinent information, but also the names and phone numbers of all of the advisors.

Third, I review all of the documents to make sure that everything is in order. This extra step can save you a lot of money. So often you are receiving advice from a number of different professionals, yet that advice is not coordinated. By tying everything together, you will be surprised at pieces of your planning that you thought were “all set”, yet after further analysis, needs some updating.

Just some of the examples of the errors/omissions that I have uncovered for clients includes:

Aunt Molly, who passed away 12 years ago, was still the beneficiary on a retirement account. This could cost the estate thousands of dollars if it went unnoticed.

A health care proxy was not signed or witnessed. The client had forgotten to take that last step, and the reality was there was no valid health care proxy.

A life insurance policy was improperly owned. This would have meant, if not corrected, that the insurance policy would have caused a \$300,000 tax on the estate. Instead of creating estate liquidity, it would have caused the estate to shrink. By retitling the ownership of the insurance, the client saved \$300,000.

As a result of going through the process of coordinating their financial affairs, a client called the estate planning attorney to update their plan. As a result, the client put in place documents that could save them over \$200,000 of estate taxes. He would never have made that call if we had not 1) coordinated the documents and 2) reviewed them to make sure everything was aligned properly.

And the list goes on.

Coordinate your affairs now and you will feel much more confident, even with all of the turmoil around you.

## 6. Pay Attention To The Tax Man

During times of turmoil, many feel helpless. They don't look at the portfolio because they don't want to be reminded of the decline in values. By looking the other way, you may miss out on opportunities to reduce the impact of taxes.

First, there may be opportunities to turn a loss into a positive. If you sell off certain positions, you may be able to take the tax losses - this is called tax harvesting. Even though you can only take up to \$3,000 per year of losses, you can carry them over until they are used up. Hold onto them for future years when you will have gains and marry those gains with the losses stored up.

You can buy up the very same investments 31 days later (called the wash rule). So the tax laws provide you with a way to accrue your losses, you just have to be proactive.

Second, if I could show you how to potentially increase your returns by 28% without increasing your risk would you be interested? Of course you would.

This strategy is about understanding 1) if you need income, 2) then finding the proper way to generate that income.

For instance, if you have a taxable account and you own a income producing investment like a bond, it will be taxed whether you use that income or not.

If you don't use the income, why not hold that investment in the tax deferred account, like an IRA. In that way you could keep all of the income and no taxes would be owed on it. Just by owning the investment in the right place, by



moving that investment to the tax deferred account, you have the potential of increasing your return by 15% because you avoid paying the capital gain tax.

On the other hand, if you do need income, and you are taking it from your IRA, instead of your taxable account, you will pay ordinary income taxes on that very same income from the bond of fund, thereby reducing your net income by as much as 28%, or sometimes more.

Holding the investments in the “right” account is often more important than owning the “right” investment. Saving a few dollars on taxes in these tough times could be very handy.

## 7. The Value of Independent Advise

I have always argued that the value of what we do for our clients is much more in tough times than when times are easy.

Our primary role with our clients is to take the emotion out of the decision making process, and in times like we are proactively reaching out to them to make sure we can answer any questions they may have. At times, the conversation is as simple as just being there for them to say hello, and hold hands. We need that touch in times like this.

We constantly are going back to the plan to find in order to take the temperature of how we are really doing. If changes need to be made to any aspect of the overall planning, then we need to be proactive about that.

Often, the conversations are about bringing proper perspective, emotionally and financially, so that our client can move forward with their life.

Whether you use us or some other CFP® Practitioner, I urge you to make sure that you have a seasoned professional by your side. While you may be stuck, not able to move because you are so fearful of what has already happened, or what else could happen, your CFP® Practitioner will be able to work with you to align your planning with your goals.

**Mark S Singer CFP® is President of Safe Harbor Retirement Planning located in Lynn, MA. Through his interactions with his clients, and his role as a TV and Radio talk show host, he has provided advice to thousands of people during his 22 years of practice . Mark is a registered representative of Commonwealth Financial Network, member FINRA/SIPC a Registered Investment Adviser. Mark can be reached at [Mark@55retire.com](mailto:Mark@55retire.com) or (866) 55 RETIRE**

*(1) Source: Standard & Poor's, FTSE, MSCI Inc., Nynex, Lehman Brothers, NAR, EcoWin, JPMorgan Asset Management. All Indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results.*

*The indexes used are as follows : S&P 500 Index: Standard & Poor's 500 Index, REITS: NAREIT Equity Reits Index, EAFE: MSCI EAFE, Oil: West Texas Intermediate Index, Bonds: Lehman Brothers U.S. Aggregate Index, Homes: Median Sales Price of Existing Single-family homes, gold: US/troy oz. All returns are annualized (and total return where applicable), and represent the 20-year period ending 12/31/07. Average equity investor return is based on an analysis by Dalbar, Inc. Which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.*

*Alternative investments are not suitable for all investors as they involve substantial risk. The risks include, but are not limited to the following: no guarantee that they will reach their investment objectives; there is no public market for shares of these investments making it difficult to sell or, if sold, at a significant discount; alternative investments are highly illiquid in nature; investors could lose all or a substantial amount of their investment; they may be redeemed at less than original amount invested; higher fees and expenses may be charged which may increase the risk that returns are reduced; performance can be volatile; tax and real estate risks due to market and economic conditions may also be associated. Investors must meet specific suitability standards before investing and understand these investments are for a long-term investment horizon.*

# Safe Harbor Retirement Planning



## Mark Singer, CFP®

CERTIFIED FINANCIAL PLANNER™ Professional  
and president of Safe Harbor Retirement Planning.

Mark is recognized as one of Boston's retirement planning experts. He has taught thousands of people how to coordinate their money management with their retirement planning, helping them to avoid some of the most costly mistakes investors make.

*Mark has been involved with the financial services industry since 1986.*

*Some of his accomplishments include:*

- *Author* of Mark Singer's **SmartGuide to Retirement**
- *Hosted* the educational television and radio show entitled **"Your Money Matters"**
- *Guest* columnist for the Daily Lynn Item Money section
- Selected to be the retirement planning specialist for a Fortune 500 company
- Created a Retirement Education Center, a comprehensive educational resource for the members of Fortune 500 companies
- From 1996-2000 was selected to be a featured speaker at the prestigious Tax Institute for the Massachusetts Association of Public Accountants. (MAPA)
- Conducted and presented retirement and college planning seminars to civic organizations as well as to Fortune 500 companies
- Written and published articles on issues of retirement and college planning in both local and national circulations.
- Featured on major Boston radio talk shows.
- In 1994 was selected to present to a national financial planning conference on "How to Develop a Successful Retirement Practice"
- Has been a member of the Board of Directors of the local chapters of the Institute of Certified Financial Planning and the International Society of Retirement Planning.
- Is a member in good standing of The Financial Planning Association (FPA).

*"Helping You Enjoy Retirement By Making Smart Financial Choices"*

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