

PRIMARY MYTHS & REALITIES OF INVESTING

BONDS

THE MYTH:

A portfolio consisting of 100% bonds is always a safe investment.

REALITY:

\$1 invested in long term government bonds from 1925 to 2005 grew to only \$71, with an average annual return of 5.5%. Whereas \$1 invested in large company stocks grew to \$2,658 with an average annual return of 10.4%.

Inflation over that same period averaged 3% - which reduced the real returns on bonds to only 2.5% before taxes.

Value of \$1 invested at year end 1925 assumes reinvestment of income and no transactions costs. Source: Ibbotson.

ANNUITIES

THE MYTH:

Annuities are the ideal tax deferral investment, especially for retirees.

REALITY:

Put annuities under a microscope and what you'll find are some of the most oversold, overpriced and misused financial products on the market. Annuities are typically high-expense products that carry hefty surrender charges making it prohibitively expensive for you to pull your money out early.

It may take decades for you to break even from the surrender penalties and tax *disadvantages* spewed by annuities.

When you begin to withdraw payments from your annuity, the gains are taxed at higher ordinary income tax rates, rather than lower capital gains rates enjoyed by long term stock and mutual funds investments.

Also, if your assets are large enough to create a taxable estate at your death, your annuities are double-taxed by estate and income taxes, without the benefit of stepped-up basis for your heirs. You can lose over 80% of your annuity value to taxes upon your death! This is the reason many annuities offer life insurance benefits to provide some relief from the onerous commissions, fees, and penalties imposed during your life.

Life insurance benefits may be obtained at much lower cost without the annuity wrapper.

The touted tax-deferral of annuities has no place in your already tax-deferred IRA, 401(k), or 403(b) retirement account.

Source: Barron's, March 27, 2000, and Forbes, February 9, 1998

MARKET TIMING

THE MYTH:

The key to successful investing is getting in and out of the market at the right time – known as market timing.

REALITY:

According to Lipper Analytical Services, covering the period 1985 through 2005 (240 months), the S&P 500 gained 11.9%, compounded annually. If you missed the best 17 months, your investment return dropped to 4.3%. (Producing a return that was lower than Treasury bills). This means that \$10,000 invested in 1985 would have grown to \$23,400 rather than \$95,200 – a difference of \$71,800.

AND:

According to Lipper Analytical Services, covering the period 1925 through 2005 (960 months), the S&P 500 gained 10.4%, compounded annually. If you relied on market timing and missed the best 39 months, your investment return would have dropped to 3.6%. This means that \$10,000 invested in 1925 would have grown to \$171,200 rather than \$26,580,000 – a whopping difference of \$26,408,800!

Value of \$1 invested at year end 1925 assumes reinvestment of income and no transaction costs. Source: Ibbotson.

STOCK BROKERAGES

THE MYTH:

My money is safer handled by a national brokerage firm.

REALITY:

Multi-million dollar marketing campaigns do not necessarily translate into qualified advisors for handling your money. In fact, brokers may not have the requisite investment and financial background or personal knowledge of your particular situation to understand how your tax, estate, business or family dynamics correlate with your investment values.

Brokers are often trained in sales, making them commission-driven when handling your portfolio. They are not independent from the brokerage firm that employs them, and may be pressured into selling the proprietary products issued or inventoried by that firm. They often must meet sales quotas in order to maintain their position with their employer.

RETIREMENT PLANNING

THE MYTH:

If I make more money, I can retire early.

REALITY:

It does not matter how much money you make; it matters only how much you *save* – and how well you *manage* your savings. In order to achieve financial independence, you must build a sufficiently large portfolio of financial assets that will generate enough cash flow to support you for your lifetime. Further, you must manage your portfolio to:

- Be liquid
- Be dependable
- Be diversified
- Minimize taxes
- Keep up with or beat inflation