

“How to Avoid The 10 Worst Mistakes Individuals Make With Their Retirement Money”

In the next few minutes, We're going to reveal to you how to avoid the 10 worst mistakes we have seen individuals make with their retirement money. As professional money managers, we have a unique vantage point that allows us to see things that the average person doesn't ever see. While you will retire only once, we see and have seen a great many people retire.

The most striking observation we could share with you is that there are a few retirement mistakes that are made by the general population over and over. Some are merely an annoyance, and others can create losses that change the nature of retirement from abundance to barely enough. Most can be easily avoided just by knowing what they are. That is our hope for you as you read this special report.

Rather than making this into a boring, formal report, we'd like to write to you as if we are talking together about your future – as we do all the time with our clients. When it's all said and done, this really is about *your* future. So grab your cup of coffee or tea and let's get started...

This Special Report isn't long enough to get into lots of details from case studies of real lives of other persons (of course I would change their names to protect their privacy), but we will look in summary form at the most common mistakes people make so that you can avoid doing the same things.

I'd like to start with a question...

After all these years of working are you confident that when you complete that last work day, you will be financially prepared enough to retire?

No, we don't mean whether you will have enough money to retire. We hope you are prepared in that way, although many individuals are not.

We're asking if you are knowledgeable enough financially to undertake 20 – 30 years of keeping your money working for you? Because it is that understanding of how to make the best financial choices for you and for your family that will guard you against making the same mistakes we have seen people make over and over again.

There are questions you need to begin asking now:

- ◆ What will you do when you take control of your retirement money?
- ◆ Where will you invest it?
- ◆ What advice will you rely on to make decisions?
- ◆ How can you avoid making serious mistakes with what is the largest sum of money you will ever receive?
- ◆ How can you make your retirement money grow in a way that is safe and predictable and will let you sleep well at night?
- ◆ How will you make a bridge to age 59½ - to tap your IRA without penalty - if you are forced to stop working due to health or other reasons?
- ◆ What are the most common mistakes others have made?

Let's start at your desired end...

Imagine for a moment that you are already retired. You're looking back on your first year of retirement – all the way back to today. It's been a good year. No, make that a great year. Your schedule has changed, for one thing. You have time for those things you put off for so long.

You think about your retirement money. You smile. You avoided the worst mistakes many people you know made. But you've done more than avoid mistakes. Your smile grows. It's invested. It's growing in a safe and predictable way. You have enough to live on now and you don't worry about the future. You sleep at night. "Why did I wait so long to retire?" you ask yourself.

Now, jump ahead ten years. You are content with life – enjoying your family and friends. The grandkids are coming today. How did you ever have time to work?

Your thoughts wander back to your retirement money. The smile is back. Your money has more than doubled. You have chosen to give yourself a raise every year of retirement. You have all the freedom you want to come and go as you please. With ten years of retirement under your belt, you look back and know that you made the right investment decisions. You look forward to the future with a feeling of security. None of that living on Social Security for you. Your Social Security check is just a bonus Uncle Sam gives you for confiscating your money all those years.

This can be your retirement!

We write that last sentence with absolute confidence because we have walked with many people through the process of leaving their company and investing their retirement money. The description above comes directly from the comments we hear regularly from clients. Most importantly, it can describe your future too.

That is, it certainly will describe your retirement, if you avoid the mistakes most retirees make with their "biggest check." And beyond avoiding mistakes, you want your money to grow in a safe and predictable way that will provide for the rest of your life.

To accomplish those two things, let's look together at "The 10 Worst Mistakes Individuals

Make With Their Retirement Money.”

If you have already made any of these mistakes, you are not alone – and you should know at the outset, it’s *never* too late to get back on track.

WORST MISTAKE #1: Waiting Too Long Before Making Plans for Your Retirement

Yes, the single most common mistake is not planning ahead!

We know, you probably would have guessed something very different. The truth is that people in general, procrastinate planning for the day they make their last drive to work. For so long in our careers it seems the day will never come. Then the final months rush by like pages being ripped from a calendar.

How far ahead should you begin planning? Even several years is not too soon to begin establishing a working knowledge of what you will do – and establishing a relationship with a professional advisory firm. This will increase your comfort level and your confidence level as you work through decisions together. The longer you wait, the greater chance you will rush into a mistake.

You may not be retiring for several years and think you should wait until the day gets closer before doing anything. Wrong. Too many people fail to make time to begin planning for their retirement until they are under pressure to make a fast decision. This is one time in life you don’t want to rush your planning. There will always be more things to do than the hours you have available to do them, but you should at least be taking steps.

What if you don’t have a year or more? What if you have only months to go – or if your company is merged with another and you are suddenly offered an early retirement package? Act today! You need to make up for lost time. The people we have witnessed retire most successfully had plans and were ready when the day came.

WORST MISTAKE #2: Getting Your Advice from a Salesman Instead of a Professional Advisor

Salesmen (and today, saleswomen) are likeable, friendly, smooth and often sincere – but they are still salesmen. Never forget that their job is to get you to buy something.

There’s an old joke that still makes the rounds today: What does a broker get when the stock he sells you loses money? A commission. Funny, but the truth it contains is very serious.

Salespeople only get paid when you do something. In the case of brokers, they get paid

whether you buy or sell. And whether you make money or lose money they still get paid. As long as you do something – even if it’s not in your best interest – they will get paid. That’s why there is always a great sales story with wonderful benefits and usually a time deadline too. The story motivates you to do something. The deadline makes you do it immediately.

But is it the *right thing – for you and your family*? You will never know if something is best for you as long as a conflict of interest exists. Do you see a conflict of interest here? You should. Would you pay for medical advice from a pharmaceutical salesman who makes money when you buy his medicine? Or would you see a real doctor?

There’s no getting around it, a salesman represents the company that pays him – whether it’s an insurance firm or brokerage firm. They don’t represent you. A real advisor works only for you. Represents only you. Is paid only by you. There are no conflicts of interest. There are no sales stories. You are both on the same side of the table and your interests are aligned to work toward your goals.

**WORST MISTAKE #3:
Wasting Even a Penny On Commissions
– Any Kind of Commission**

The ultimate goal of investing your retirement money is to make it work as hard for you during your retirement as you worked for it during your career. It replaces your labor. By paying commissions, you *guarantee* that you will start your retirement with less money – and flexibility – than you will need.

There is no end to the number of ways companies have invented to pay salespeople. Traditionally, front-end commissions guaranteed you would start your retirement with less money working for you than you left your company with. The commission just came right off the top! These days, they have learned to pluck the greatest number of geese with the least amount of squawking! They have back end loads – which limit your flexibility. And they have developed products with higher expense ratios – ongoing expenses you pay every year you own the investment – which ensure that you pay even more than if you had paid an up front commission.

In either case, you should avoid commissions altogether. Just by avoiding dealing with salesmen, you will distance yourself from most of these types of products. And you’ll save LOTS of money. Here’s a quick example of what paying a 5% commission could cost you versus investing without commissions:

Starting Value	Starting Value Net of Commissions	Value After 20 years with 10% Return
\$250,000	\$237,500	\$1,597,781
\$250,000	\$250,000	\$1,681,875
<u>True Cost of Paying Commissions:</u>		<u>\$84,094</u>

Ask yourself the simple question, “Is that smiling salesman worth \$84,094?” Or if you would rather be the one smiling. **If you live 30 years into retirement – not an unreasonable assumption these days – the cost of paying commissions will have grown to an astounding \$218,118!** And here’s the main point: It will be gone forever. Wasted, maybe just because you rushed into a retirement decision – or a friend had bought something from the same salesman. That money would now be unavailable to you or your spouse.

Obviously, the more you start your retirement with, the more money will be wasted on commissions, instead of used for meeting your future needs. If you are starting with \$500,000, it will cost you almost half a million dollars! And if you are starting your retirement with a million dollars, it will cost you over \$800,000 just to pay for a salesman!

Unfortunately, this isn’t the worst of it. This example doesn’t include the continuing cost of commissions as changes are made to your portfolio. What changes? You know the world will continue to change. If anything, it will change faster and your portfolio will need to be repositioned to keep up with the changes.

The cost of investing is like gas mileage in a car. You want the best mileage you can get – and you don’t want to waste gas. You may never get to “fill up” your retirement gas tank again. You certainly don’t have enough time to go back and work all those years again. Before you waste even part of your retirement money on commissions, ask yourself why.

The good news is that by the time you have prepared for retirement, you have options available to you that involve no commissions. For example, we use a strategy that avoids wasting even one penny on commissions by using no-load mutual funds – just like in your 401(k) account. This puts 100% of your money to work for you from the start and will provide more money for you in the future.

WORST MISTAKE #4: Settling for Puny CD and Money Market Yields

You must invest your money to earn a greater rate of return than is possible with CDs and Money Markets.

Ten years into your retirement, it will cost you more to live. You have lived long enough already to experience this with the things you need to live – food, shelter, clothing, healthcare and transportation. In fact, everything costs more. One dollar in 1972 has the purchasing power of less than 23 cents today!

The future will not be any different and your money must grow to keep pace.

The real rate of return of a CD is what you would have earned after you have paid taxes and lost purchasing power to inflation. Over the 20 year period from 1971 until 1990, the *real return* on CDs has ranged from –8.1 (yes, that’s a minus) to 2.48%.

We often tell clients we’re not worried about their first ten years of retirement. It’s the

next 15 to 20 years that will be tough if their money hasn't been growing during the early years. CDs and Money Markets won't provide that growth.

People who retired in the early 1980s and put their money in CDs have seen a 75% drop (or more) in their income. Your retirement money must be invested in a way that will provide an *increasing income* to cope with future inflation. CDs and Money Markets are not that investment.

WORST MISTAKE #5: “Do-It-Yourself Investing”

Would you be willing to ride on a plane if it was piloted by whoever happened to sit in seat 15D that day? Someone with no training or experience? It isn't that it would be *impossible* for them to manage a landing, if they had good coaching. This occasionally happens and is reported in the news.

The troubling part of this scenario is the very severe consequence if an error is made. It would be catastrophic.

Every day, people attempt to manage large amounts of money themselves – with no training and little if any experience. Now here's where we want you to pay close attention. The consequences of a mistake could be catastrophic for their retirement. What took 25 years or more of working to accumulate could be decimated very easily by poor decision-making.

It has been said that it takes 10 years of full-time study to master any body of knowledge.

Will you really spend your retirement years taking on what amounts to another career? Will you fill your free time with studying investments, financial analysis, and markets? Will you spend the thousands of dollars it takes to buy the research and tools you will need in today's volatile economy? Successfully managing your investments is a full time job. It also requires a unique combination of skills.

Don't be embarrassed to seek advice. There are very few people who have the expertise to manage large sums of money and none of us are experts on everything anymore. Gathering facts is one thing. Knowing what the facts mean and what actions to take as a result is another. That only comes through experience.

You can get experience the hard way, or you can buy experience. Always remember, it takes a 100% gain to wipe out a 50% loss. Buying experience to avoid costly mistakes is a bargain. Good advice doesn't cost, it pays.

There is a strong benefit that goes with hiring experience that you shouldn't overlook. You are buying experience and getting more time as a bonus! Time to invest in your grandkids, marriage, travel, and hobbies. The commodity that is in shortest supply in this age is time. Give yourself lots of it while you can.

There is one final thought we have for you about doing it yourself versus hiring professional help: It is not unusual to see one spouse who is “financially inclined” and the other who has little interest or experience in investing. This works fine as long as both remain healthy. Unfortunately, it is most often husbands who both handle the investments and eventually are the first to die.

The result is often a spouse who has been “out of the loop” and doesn’t know enough to take care of the investments. This puts her in a weak position when she seeks outside help. None of us want our spouse to be taken advantage of – but it often happens because of our own lack of planning ahead. Incidentally, the roles are occasionally reversed as to who is most interested in investing, but it is most often in my experience the husband. Medical statistics and life expectancy charts show that he has a shorter life expectancy. Not a good combination when you stop to think about it.

You should have a contingency plan for this possible future. By establishing a trusted relationship during your lifetime, you avoid this possibility and protect your family. One final loving act.

WORST MISTAKE #6: An Obsessive Focus on Guarantees

Guaranteed. Backed by the Government. FDIC Insured. Being obsessed with guarantees always subjects people to the latest sales story. It often leads them into buying investments that carry risks they do not understand.

The guarantees in life carry with them a false sense of security. There is no such thing as a “risk free investment.” There is no free lunch.

Safety should be a large concern of yours, but being obsessed with security blinds investors to the many other faces of risk. These other risks are many: loss of purchasing power, interest rate risk, reinvestment risk, and many others. An advisor will have the expertise to provide protection against the major risks you face without losing sight of the need to make your money grow.

If an investment carries a guarantee, it will often carry a “hidden guarantee” that after taxes and inflation you will have a net loss – or a return that is so small that your money isn’t growing fast enough to meet your future needs.

WORST MISTAKE #7: Giving Up Control of Your Money

Nothing! We repeat, nothing, is worse than losing control of your money – other than losing your money. A good investment will allow for the inevitable changes in your life and not lock you in with one investment or company.

How do individuals typically lose control of their money?

First, and most commonly, they purchase investments that have a life of their own. Examples of this include limited partnerships, annuities (see Worst Mistake #8), mutual funds with surrender charges, etc.

There are other ways to lose control.

You could give full discretionary control to another person – and they will become you as far as access to your money is concerned. Some people lose control by investing in things they don't understand. Or, well, there are plenty of other ways to lose control. These things are done every day by well-intentioned investors. To modify Winston Churchill's famous quote a bit, "Never, never, never give up control of your money."

When money management works best, it is guiding and directing the client's money to the very best investments according to the client's specific plan of acceptable return and risk. Those investments are chosen to keep the client in control.

WORST MISTAKE #8

Locking Up Your Money in Annuities

"Locking up" is the right phrase because once you have bought an annuity (Worst Mistake #2, getting your advice from a salesman!); you have given up control and flexibility (Worst Mistake #7, giving up control of your money!). To move your money to another investment, you will be forced to pay a "surrender charge". This is how annuities and some mutual funds make sure they can pay their salesmen.

Why would you want to move your money? You may need to use it to live on, for an emergency, or any reason – it is your money. You may want to move it when the annuity company lowers their interest rate. That happens all the time.

Would you be willing to give up 5% of your money to get the rest back? If not, then you are locked into that annuity. There's no free lunch. That's why they guaranteed you (Worst Mistake #6, an obsessive focus on guarantees), such a great sounding interest rate to begin with. They will get their money one way or the other.

It could be even worse.

You could annuitize and give up complete control of your money. The money would now belong (yes, legally belong) to the insurance company. It would no longer be your money. All you would own would be the right to a "guaranteed stream of payments."

"But an annuity has tax benefits!" Annuities are simply life insurance policies and carry tax deferral. This insurance has an additional cost. When it comes to an IRA, you get no additional tax benefit for investing in an annuity. You already have that benefit. This would be similar to wearing two raincoats when it rains. The second serves no purpose, but costs you more.

(What if you find yourself already invested in an annuity? It really takes an objective look to know what to do. Please feel free to contact our office and we'll look more closely at your exact situation and give you our best advice. We have no products to sell. You can reach us toll free at 1-888-895-1212 or 1-888-254-1727.)

WORST MISTAKE #9 Failing to Take Full Advantage of Your 401(k) Account While You are Still Working

One of the few remaining tax breaks Congress left the American people after 1986 was the immediate deductibility of contributions to employer sponsored retirement plans. Your contributions plus your employer's contributions are, as you know, a great way to invest for retirement.

Unfortunately, many individuals fail to make full contributions to their 401(k) Savings Plan. This is the absolute least you should do – make the maximum contribution allowable. You should be saving on an after-tax basis too for emergencies, but that's another topic.

There is a second way individuals fail to make the most of their 401(k) plan.

They have no solid investment strategy for the money within their account. Other than not making the contributions to begin with, this is the single worst thing you can do – or more correctly, fail to do.

This is, of course, understandable...

Your work involves other things – not portfolios. You raise a family. You have a life. You're just busy. You make some initial contribution selections and hope for the best. This is far better than not saving, but it fails to maximize the incredible opportunity you have. You have an opportunity to make contributions and then grow them to even larger sums.

The day will come too soon when you retire and you are depending on your invested money to work for you. Each dollar is an employee that will work for you year after year – and multiply itself if it has proper care. Eventually, you will have hundreds of thousands of these little employees – if not millions – working for you everyday. But it doesn't just happen. They don't know how to multiply on their own without some guidance.

What should you do?

First, either devote the time to formulating a successful strategy, or rely on a money manager to manage your 401(k). Our strategy at Rhoads Lucca is used with millions of dollars of client assets. It has proven itself to grow and protect money through every imaginable market – including the recent Bear market of 2000-2001. There is something very satisfying about preserving your gains while the markets around you seems to be crumbling.

Contact us about our 401(k) Investment Management service. We frequently receive calls from individuals who are just too busy to keep up with their investments, asking if “we could just do it for them.” Yes, we can. We are often asked too, if we handle retirement rollovers. Yes. Over 80% of the money we manage is in rollover IRAs.

Any good strategy will include both an offense and a defense.

It will balance both growth and safety. It will include a way to know which funds to invest in and which to avoid. It will take the emotion out of investing your money. Ultimately, it will provide more money when you are ready to retire. Even just a few percent greater return can have a huge impact over 10 to 20 years.

For example, the difference between earning 12% and 15% annually over twenty years seems insignificant, but is staggering. Let’s say you start with \$250,000 in your 401(k). You invest at 15% average annual return and the guy next door invests his \$250,000 at an average annual return of just 12%. At the end of the 20-year time period, your account would be worth *an additional* \$1.68 million more than if you had just earned 12%!

Just a 3% improvement in return gives you back over a million and a half extra dollars – “future employees to work during your retirement!”

That extra 3% comes from solid growth of your investments and from not giving back all your profits every time there’s a market correction. This is why having both an offense and a defense is crucial to your investment success.

WORST MISTAKE #10
Not Understanding that 90% of All Investments
Are Not Worthy of Your Consideration

The universe of mutual funds alone has expanded from about 2,000, just a few short years ago, to over 8,000 funds today. Every night, we download thousands of fund prices and about 10,000 stock prices. Our computer programs make short order of ranking and sorting these securities according to our proprietary Power Ranking Technology™.

This final list is the “best of the best” with which we build portfolios.

Each of these investments is a winner. Each has a proven track record. Each is timely to own when it makes it through our screening process. Each costs nothing to own since it is a no load fund. We use these champions to build client portfolios – and we invest our own personal resources in these same portfolio models.

The amazing thing is that the same group of funds and securities turn up in our “A List” time after time. There is some turnover as to which are the best funds to buy now, but there is tremendous consistency too. A full 90% fail to make our cut - ever. They should fail to make your cut also.

Why are so many funds consistently poor performers?

Step back and think about it for a minute – mutual fund companies have one primary goal in life. They gather assets. Performance is important to them only to the degree that it helps them gain more money and earn greater management fees. The truth is they gather far more through marketing than performance. This is why they are always coming out with new funds in different categories. Whatever is the latest hot thing, they'll make a new fund to cover – and attract your money.

The vast majority of these “fund factories” produce things you will never want to own.

The investment universe is filled with things you should never buy. Just because some marketing guru thought it was a good idea doesn't mean you should tie your financial future to it.

Be selective. Stay in the top 10% in terms of quality. Your future demands no less.

Time for a pop quiz: How many of these mistakes would you have avoided? Will you avoid?

The good news is that you now know the “10 Worst Mistakes Individuals Make With Their Retirement Money.”

The bad news is that there is no shortage of ways to make mistakes. If space permitted, we could cover taxes, IRA distributions, inflation, strategy, etc. Never the less, this is a good place to start your thinking.

There's one thing we can't do in this report...

That's to evaluate your individual situation – both the pre-retirement approach and the retirement transition and rollover. The first takes some planning and the IRS has some specific requirements about the latter.

What we can do is make our firm's resources available to answer questions you may have about your individual needs that hasn't been covered here. Please feel free to contact us directly by phone.

There are several benefits to our talking together. We can:

- ◆ Answer your questions
- ◆ Do an analysis of your specific situation
- ◆ If you have already made any of the mistakes we covered, we can help you get back on track fast
- ◆ Show you how to invest in a way that will protect and grow your money and let you sleep at night
- ◆ Answer any questions you have about our IRA rollover and Money Management Service

Without knowing how all this applies directly to you, you are more likely to make a mistake. That's the last thing anyone wants to do with his or her retirement money. You can reach the offices of Rhoads Lucca Capital at: Lancaster, PA (717) 569-8500 or 888-254-1727 and Dallas, TX (214) 373-9771 or 888-895-1212 .

We wish you a mistake free retirement! We hope you have enjoyed this special report and we look forward to speaking with you soon.

All the Best,

Rhoads Lucca Capital Management

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David A. Lucca and John D. Rhoads, money managers, authors, and speakers, are the Managing Partners of Rhoads Lucca Capital Management, Inc., a 21-year old Registered Investment Advisory firm. The firm has offices both in Dallas, TX and Lancaster, PA and clients in 13 states and several foreign countries. The firm has appeared or been quoted on CNN and in The Wall Street Journal, Barrons, Financial Planning, Ticker, and other publications.

Ticker Magazine chose David as one of only "5 Ace Advisers" in America in 2000 and John in 1998. David and John are both Certified Financial Planners (CFPTM).

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