The Mallard Flyer

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Notices

Paul's Schedule / Newark Office:
Paul will be attending the TD Ameritrade conference in San Diego from February 8th to the 10th.

Bill's Schedule / Hockessin Office:
Bill will likely attend the TD Ameritrade conference in San Diego from February 8th to the 10th. As a reminder, Sherry's office hours remain at 8:00 am till 12 noon. Also, Sherry is a notary public and is available to notarize any of your important documents at no charge.

Office Closings:
There are currently no office closings scheduled for the next three months.

Next Newsletter:
The next newsletter is expected to be mailed in early April 2007.

Retirement Savings—How Much is Enough?

William D. Starnes

Much of financial planning revolves around setting financial goals, and determining what changes are necessary in order to achieve these goals. A major objective for most people is to determine how much should be saved for retirement, or how much can safely be spent during retirement. This type of planning can be either quite simple by use of a rule of thumb, or quite complicated involving many variables. In fact the variables can be so overwhelming and uncertain, that many do not plan at all.

However, planning is crucial. To use an analogy; in a battle there are many unknowns, yet every good leader knows that you must nonetheless implement some reasonably intelligent strategy. After-the-fact, the chosen strategy won't have been the very best thing that could have been done if all variables ***had*** been known. But **it can indeed be that imperfect plan that keeps you far ahead of where you would be with no plan at all**.

Those who try to put some numbers down for the future are likely to make much better (yet not perfect) decisions than those who don't plan. With a good retirement plan in hand, you can also perform comparatives and thereby make much better decisions along the way.

Retirement planning is more crucial today with evaporating pension plans, reduced Social Security benefits, and very low savings rates. **One of the biggest financial risks today is that we don't save enough to live comfortably in our retirement years**. It is very difficult to cut your lifestyle dramatically in retirement. As my mentor Alan Brown would say, "Old and poor is no way to spend your retirement".

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Mallard Announcements

Educational Seminar

On February 7th from noon to 1:30 pm Paul is leading a "Getting Money Out of Your Portfolio" seminar at the Newark Library. Contact the Newark office to sign up.

Personnel Change

In October Mark Shryock resigned from Mallard Advisors to pursue his career elsewhere. We wish Mark the very best, and appreciate his service during almost two years at Mallard.

Gear Up For Tax Season

For those of you who have Mallard Advisors prepare your tax returns, within the next several weeks you will receive a letter from us with guidance on how to prepare for tax time.

How Much is Enough?
To accurately determine how much to save or spend is complicated, and time consuming. Obviously, no article will be able to provide you with a specific answer to your own retirement planning questions of how much to save, or how much to spend. Therefore, in this article, I will briefly discuss the best simple method possible for the pre-retiree. In our next newsletter, I will focus on the best simple method for determining safe spending rates for the post-retiree.

Pre-Retirement—How Much to Save?
<u>The Simple (and less accurate) Method</u> — A good average savings rate for most people should be about 15% of their gross salary. Those who delay savings until later, may need to save as much as 25% (or more). Remember, rules of thumb or online calculators typically don't consider your pension (and if considered, assumes they are inflation adjusted, even if fixed), inheritances, future health expenses, tax-diversification, number of children to be put through college, etc.

Success Rates for Individual -- Age 35
Current Savings = 1 x Current Salary

Annual Contribution	% Stock / Bond Mix 80/20	60/40	40/60
6%	33%	18%	4%
12%	60%	49%	28%
18%	78%	74%	63%
21%	**84%**	**83%**	**76%**

Success Rates for Individual -- Age 45
Current Savings = 5 x Current Salary

Annual Contribution	% Stock / Bond Mix 80/20	60/40	40/60
6%	73%	69%	57%
12%	**81%**	**80%**	73%
18%	**87%**	**87%**	**85%**
21%	**89%**	**90%**	**89%**

T. Rowe Price has developed some excellent "rule of thumb" consumer information on savings targets for those in pre-retirement. I have placed a sample of two of their tables above as an example of the necessary savings rates under differing circumstances.

What the lower table is saying is that if you are 45 years old with five times your annual salary in investments, and if your portfolio is 60% stocks and 40% bonds, then a savings rate of 12% will provide you with an 80% "success rate". A success rate is the odds that you won't be old and poor. In other words, if the success rate is 80%, then you will have an 80% chance of not running out of financial assets while still alive. If you don't think 80% is high enough, then selecting a success rate of 90% will require that you save 21% of your gross income.

Using the T. Rowe Price tables, I would be shooting for at least an 80% success rate, and ideally a 90% success rate. I would lean toward a higher success rate because I think a few of their underlying assumptions are too giving. If you would like a copy of their full tables, please call either Paul or myself. Also, if you are an Excel nut (like me) you can find some good low cost retirement software at analyzenow.com.

<u>The Sophisticated (and more precise) Method</u>—My opinion of the best method to determine savings rate is to illustrate all of the financial particulars of an individuals circumstances. This illustration, using sophisticated retirement planning software allows you to plan based upon your own unique situation including savings rates, comparing alternatives, or running life insurance needs analysis.

Whether your plan is simple or sophisticated, it is far better than no plan at all.

Your Options
1. Save nothing and live like a king today, but on a pittance when you retire — old and poor.
2. Save something and live like a prince today, but with only minimal comforts when you retire.
3. Save lots and live well—both now and when you retire.

Looked at that way, what's to choose: save and live well!

Bill Starnes is the managing partner of Mallard Advisors' Financial Planning Division

This could be a review for those of you who have been investing for many years, reading this newsletter for a while, or both. Nonetheless, I feel that it is a good idea to occasionally go back to basics, and review the foundations for investing, and its most important lessons.

Why Invest?—We invest for two reasons. Like a squirrel that sets acorns aside in the summer so they can survive the winter, investors save money during their working years so their savings can support them during their non-working years.

The squirrel's hollow tree, however, only stores the acorns—it does not enable the acorns to increase in number. Your checking account likely acts the same—you can save money in it, and that money will be available when you retire, however it will not have grown. For that, you need to invest. When you invest, you exchange your savings to buy something today with the expectation that it will be worth more later. Thus we invest so that when we retire we will live off of not only what we saved, but also off of what our savings have earned through investing.

Invest in What?—There are many, many types of investments. In the Wealth Management Division we focus on financial investments (stocks, bonds, mutual funds) and not on real assets (real estate, collectibles, commodities), although we have used financial investments that represent real assets.

Stocks are shares in a company's fortunes, for good or ill. Bonds are loans to companies (or governments). Mutual funds are pools of money that investors have contributed which a manager will use to invest, generally into stocks and bonds.

Invest How?—The most important factor in how to invest is how much risk you are willing to accept. If you would go postal if your savings lost a penny, then you should only purchase investments which cannot lose money (FDIC bank CDs perhaps). If you would go postal if you didn't keep up with the stock indexes which are regularly discussed online, on financial TV shows, and newspapers, then you should purchase investments with a large proportion of stocks.

Financial advisors, including Bill and I, often focus on the proportion of a portfolio dedicated to stocks, with the rest directed to bonds and money markets (aka cash). So a 75/25 portfolio would have 75% of it invested in stocks, which go up and down quite a bit, and 25% in safer bond and cash investments, which are steadier in all markets (good and bad), but which don't earn as much as stocks most often. During the stock market decline related to the 9/11 terrorist attacks, for instance, I used this to remind one client that only half of his portfolio was falling, and that the other half (the half in bonds and cash) was holding up just fine.

There is more to investing than the overall stock/bond balance. However getting this balance right is very important, and can easily make the difference between forming a plan that you can maintain during very good and very bad times, and a plan that you abandon at the worst time, selling investments at low prices.

Invest Where?—There are thousands of stocks, bonds, and mutual funds. How do you select one as a good investment versus the rest? Given that this is intended as an overview, I will focus on mutual funds, which are more appropriate for new investors and smaller portfolios.

Investing is both art and science. It is focused on the future, which, like the weather, is not knowable, but about which you can make some educated guesses. As advisors we focus on the achievable, increasing the odds that your future will be sufficiently bright.

When selecting mutual funds, you can increase your odds of success by proper classification, cost controls, stable management, and then by consistent superior results. There are **resources** available for investors to examine mutual funds. The most well-known is *Morningstar*, which has both a website, and a paper publication that is available in most public libraries.

You can't and shouldn't compare the land speed of a horse to a turtle. With mutual funds, it is important that you **know the goal of each**

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Investing Fundamentals...Continued from page 3

mutual fund—whether it focuses on large US stocks, undervalued stocks, foreign stocks, high-yield bonds, US government bonds, etc. In this manner, you identify each fund's peer group, a listing of other mutual funds that use a similar approach. This provides reasonable comparisons for the next steps.

When selecting a mutual fund, I prefer to use ones that do not charge investors high annual costs, compared with peers. This is one of the few dependable ways to predict the future. If one mutual fund charges 1% annually, and another with a similar approach charges 2%, the first one will very likely outperform the second, after fees have been deducted.

Management matters. Mutual funds are run by a manager, who makes the decisions of which stocks and bonds to purchase and sell. In order to use past results to help you decide which mutual fund to purchase, you need to know whether the manager from the past is still there, and likely to remain there in the future.

Once you have narrowed down your search to a set of peer funds, each with reasonable costs and stable management, you can **review their performance** (using *Morningstar* or similar resource) and separate the wheat from the chaff. This process should help increase the odds of your investments performing well in the future.

Write It Down—Several times in the past I have recommended that all investors create a written investment policy statement. Write down your goals, and your procedures. Revisit it every year, and see if you are still following its key points.

Include benchmarks. Perhaps your portfolio began 2007 at $50,000, and you will add 10% ($5,000) annually to it, and you want it to earn at least 5% annually. This means that it should double to $100,000 in five years.

It is far easier to consume money than to save it. By writing down your goals, it is far easier to create and stick with a savings plan. To reach your goals, you need to 1) define them, 2) create a plan to reach them, and 3) follow the plan.

Good luck in making progress towards your goals in 2007!

Paul Baumbach is the managing partner of Mallard Advisors' Wealth Management Division

Telephone Tax Refund

William D. Starnes

Yes, it is true, the IRS will be giving each of us a refund this year! The telephone tax refund is a one-time payment to each taxpaying household designed to refund excise taxes unfairly collected by the IRS from February 28th 2003 to August 1st 2006. Although the excise taxes were unfairly collected prior to February 2003, the statute of limitations prevents taxpayers from receiving refunds prior to this date.

The refund will be realized on your 2006 Federal income tax return as a credit. The refund amount is either given as a "standard refund amount", or is given based upon the actual excise taxes collected.

For Individual taxpayers, the standard amount ranges from $30 to $60 depending on the number of exemptions taken on your tax return. The refund applies as follows:

One Exemption	= $30
Two Exemptions	= $40
Three Exemptions	= $50
Four Exemptions or More	= $60

In order to determine the fairness of the standard refund, I pulled all of my personal telephone bills for the allowed time periods and added up all of the applicable excise taxes. Not only was this a large undertaking, but my actual taxes were $55.20, yet my standard refund is $60. Of course the standard refund includes interest. So, in my case, the standard refund seems fair, and involves no time, energy, or frustration.

If you would like to evaluate your actual telephone bills, you should obtain the details of the telephone tax refund from the IRS website at www.irs.gov and in the search bar, type "telephone tax refund". Unfortunately, Verizon does not have a method of simply telling you what your total tax was during this time period, therefore, you must request each of the monthly bills and find the applicable tax.

As always, if you have any questions feel free to call us.