The Number....continued from page 3

This will be worth about $800,000 in today's dollars, which should be able to pay you $36,000 or so in today's dollars, and increase annually with inflation.

To project the portfolio's value in the future, you can use the online 401k Savings Calculator on website www.dinkytown.com. For this calculator, you enter your starting balance, your age and retirement age, your retirement contribution level, and expected investment return. The calculator will project the value of your total portfolio upon retirement.

Why Put Yourself Through This? While the math and especially the Number can be very stressful, I like to know whether I am in the right ballpark, whether I am on course to get where I want to go, and whether I need to make small or substantial changes.

What If You Have "Too Much"? I think that this calls for you to examine your priorities, to answer what matters to you at the end of the day. I encouraged one client to retire despite a six-figure salary, asking him whether his children would prefer $50,000 more inheritance at his death from working one more year, or an extra year of spending extra time with his grandchildren. He has since retired, and he and his wife spend the winter in Florida where they are regularly visited by family and friends.

What to Do If You Are Coming Up Short? If this exercise indicates that you won't reach your Number in time, you can consider several avenues, and course corrections.

You can **delay your retirement** from full-time work. In some jobs, this can boost your pension. It should enable you to save more towards retirement, and it will reduce the number of years that you need to provide for. A compromise is to plan to work part-time for a few years after stopping your full-time work.

You can **save more between now and retirement.** This has a double-benefit. It immediately and regularly increases your retirement portfolio. Secondly, it reduces the level of income that you are accustomed to, and therefore it reduces the income that you require in retirement.

Cutting back expenses and saving more can force/enable you to better **examine your priorities**. Eisenberg describes one of several Eisenberg Uncertainty Principles, **understanding what truly matters at the end of the day**. He mentions books by Joseph Needleman (*Money and the Meaning of Life*) and George Kinder (*The Seven Stages of Money Maturity*). Both books are designed to help you find a comfortable balance in our consumer society. I like a visual shared at a conference, of a few individuals in an open sailboat. Money is the wind in the sail, enabling the occupants to travel their desired path—money is not the destination. If your current spending will compel you to work longer than you want, or to live on less than you would like, then it is worth considering whether you are comfortable with this current tradeoff/balance.

You can plan to **live on less during retirement**. Many people plan to live on 80% of their pre-retirement income, assuming that they'll spend less on gas, on clothes, on entertainment, etc. I don't prefer this technique as a first choice to address a Number shortfall, but it may be necessary.

Knowing your Number can help you come to terms with the role that money plays in your life. This may involve enabling you to retire now, worry-free, or showing you that by buying Toyotas instead of Lexuses you will be able to retire at 65 instead of 70.

It can let you know when to offer a final goodbye to your boss.

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The Mallard Flyer

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Inside This Issue

January 2008

Notices

Paul's Schedule / Newark Office:
Paul and Susan will be attending the TD Ameritrade conference February 6th—9th.

Bill's Schedule / Hockessin Office:
Bill will be out of the office on Monday, January 21st; Friday, February 15th; and March 17th & 18th.

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

Getting Started With Real Estate Investing

William D. Starnes

During the strong run-up in real estate prices from 2000-2005, I received many inquiries from new and current clients about real estate investing. It is human nature to want to buy what's working, but buying an asset class after a prolonged period of super-normal return is more likely to get you in at or near the end of the good run, just in time for the bad run. As I have said in the past, don't jump on the "gravy train" just as it pulls into the station. Instead, patience, coupled with an understanding of buying investments based upon "values" is your best ally. Ironically, not many clients today are inquiring about real estate investing.

Therefore, I thought it would be a good time to pull an article out the Mallard vault with some steps, tips, and things to avoid in starting your involvement with real estate. The following observations come from my experience as an advisor, a formerly licensed real estate agent, and from the writings of John T. Reed.

Your "Castle"
Start your real estate portfolio with a personal residence, as it is one of the only investments that provide financial and personal benefits. The financial benefits include leverage, deductions of interest and property taxes, large tax-free gains at sale, appreciation beyond inflation, and forced savings. The personal benefits are enjoyment of the space (turning a house into a home) and control over the property (being the king).

When it comes to a personal residence, buy the most house you can reasonably afford – the greater the value of your house the more dramatic the appreciation, the better the neighborhood, and the stronger the school district. A simple rule of thumb is to purchase a residence that is 2.5 times your income. For example, if you own a home worth $250,000 and you earn $100,000 the home is 2.5 times income – within this guideline.

Continued On Page 2

Mallard Announcements

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

Office Reconfiguration
The Newark office has reconfiguration / construction planned for the coming months. The changes are designed to provide more and better workspace for our growing staff. As they say, 'please pardon our dust'.

Getting Started with Real Estate Investing...Continued from page 1

Dabbling

Once you have the best house you can afford, then you can “dabble” in other real estate. However, first some guidelines. Don’t allow your total real estate holdings to comprise more than 40% of your total marketable assets (unless you are a real estate professional or a young first time home buyer). Dabbling could include purchasing the building your professional office is in - if you are self -employed. It could also be as simple as keeping your starter home as a rental when you “trade-up” to more valuable real estate.

Generally, dabbling should not include the purchase of vacant land, vacation homes, or time-shares! There are exceptions to these purchases such as if you bought your time-share at a stunning discount from the purchaser who bought it from the developer.

Beyond dabbling, you are moving into the realm of a professional real estate investor - an altogether far more serious proposition that cannot be implemented after buying a real estate program off late night TV.

Are You Really Sure You Want To Do This?

A real-estate-investment program will consume large amounts of your time, subject you to financial risk, and force you to engage in the generally unpleasant task of dealing with tenants. A lot of people (including myself) like the abstract idea of being a real-estate investor, but if they became one, would not like doing what real-estate investors do. If you do not know what it's really like, you'd better find out before you start down this road.

A must read is John T. Reed’s “How to Get Started in Real Estate Investment”. It discusses the reality of investment real estate, as opposed to the fantasy world described by the vast majority of real estate gurus such as Carleton Sheets and Robert Kiyosaki (i.e., “Rich Dad”). You may then start by taking a real estate course (I took one at Delaware Tech), and then if still motivated, by getting a job as a property manager, or a real estate agent.

Are You Suited To Being A Landlord?

Many people are fundamentally unsuited to deal with tenants and employees. To be a landlord, you must be able to stand nose-to-nose with a fellow adult and tell them "No," they cannot have what they are demanding. For landlords who cannot do that, rental properties are a disaster. Ideally, you should also have some basic home improvement skills.

If You Still Want To Do This, Set Specific Goals

If after following the advice described above, you still want to invest in real estate, you need specific, but realistic goals. This includes choosing a niche, and setting some acquisition, net worth, and loan-to-value-ratio goals.

Start Studying Real Estate Investment

Once you have made an informed decision that you really want to invest in real estate it's time to narrow your focus and to study the details of the real estate niche you choose. Most beginners seem to assume there are thousands of dollars worth of worthwhile books and courses they can take. There are not. You can probably read all the good ones in a few months. In my opinion, the best place to start is John T. Reed’s website which provides a suggested sequence of reading his books (and also recommends other authors). Others include the writings of William Nickerson, John Beck, and Bob Bruss. John T. Reed has been recommended by Jane Bryant Quinn – a very good referral source.

Do It!

After studying intensely for about six months, do it. However, do not study real estate endlessly. Also, do not own real estate with anyone other than your spouse. There is just too many things that can go wrong.

Do Not Draw Broad Conclusions From Early Results

You will probably have initial success or failure. Do not jump to any big conclusions based on the first few years. In these shorter periods, you don't see enough of both the ups and downs. The real estate world is full of people who have had a bad experience at the start of their real estate investment careers and drew the erroneous conclusion that you cannot make money in real estate. It is also full of people who came in at a good time and drew the conclusion that making money in real estate was easy.

Real estate is a vast field with many exciting opportunities to achieve financial goals. Like any other business, success in real estate investing takes diligence, persistence, and luck and cannot be achieved by taking a seminar.

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

The Number

Paul S. Baumbach

Last year I heard an interesting talk by Lee Eisenberg, author of *The Number*, a book with an intriguing subtitle: “What Do You Need for the Rest of Your Life, and What Will It Cost?”

Eisenberg contends that most of us worry about how much we need to retire, and at what point we can tell our boss to ‘take this job and shove it’. He notes, however, that there are few resources available to help us identify this number.

In this article I’ll offer some ways to help you identify your number. I’ll begin with a recent article from Wall Street Journalist contributor Jonathan Clements. The article is entitled “Simple Math to See if You Have An Age-Appropriate Nest Egg”.

Savings to Income Ratio	Annual Savings Rate
1	27%
2	20%
3	12%
4	5%
5	0%

Clements begins with a table to use if you are twenty years from retirement (Clements just turned 45 years old), presenting the annual savings rate you should be using, depending on how much you have saved thus far. If you have saved one times your annual income, then you are way behind and should save 27% of your income annually. If you have saved two times your income, you still need to save 20%, etc.

Now 27%, or even 12%, may seem far too much for you to be able to save. Let’s next consider a second, no-frills, approach for estimating what you need to save.

Estimate Spending—The simplest approach to estimate your spending during retirement is to use your current income. I am ignoring income taxes (remember that this is ‘no-frills’). I do this to keep this simpler, by keeping everything ‘before taxes’.

If you are currently working, earning $80,000, saving $8,000 annually in a 401k, and if you are making your ends meet, then you may select $72,000 as your desired ‘starting salary’ upon retirement (you won’t need to save towards retirement after you retire). If, in this case, you have a mortgage which costs $1,250 a month ($15,000 annually in just the principal and interest cost), and if it will be paid off by the time you retire, then you are able to reduce this to only $57,000.

Retirement Income—Add up any pensions and Social Security benefits that you expect in retirement. In this example, let’s assume that you have a $500 monthly pension from a past job with the state, and a $1,250 monthly Social Security benefit. This means that you have $21,000 of annual income from sources beyond your retirement portfolio.

The Gap—You need $57,000 annually, and you begin with $21,000 of annual non-portfolio income. This means that your portfolio needs to provide $36,000 annually. I then multiply that figure by between 20 and 25 (25 if you are very conservative, 20 if you are more aggressive), and this is your Number, the amount that you can aim for building within your portfolio by the time you retire. An $810,000 portfolio should be able to provide $36,000 in your first year of retirement, and should be able to keep up with future inflation.

Closing the Gap—If you have $150,000 already set aside, you save $13,000 annually (this is your annual 401k contributions plus your employer’s matching contribution) which you plan to increase 2% annually, and you average a 7.5% annual return on your investments, then in twenty years the portfolio will be worth $1.3 million.

Continued On Page 4