Defining Wages, Income, Savings, Expenses

Definitions and examples of terms critical to successfully understanding concepts and calculations in this book are introduced.

Wages – The annual amounts that you receive from your employer. These are gross wages; that is wages before any tax or other deductions from your paycheck.

Income – This definition of this term is relative to the context, either as Preretirement or Postretirement planning. In Preretirement planning this implies the equivalent postretirement wage you would need to cover retirement expenses, including debt payments, and any related income tax. In postretirement planning the word income is used the same as on a tax return including Social Security, pension payments, annuity payments, wages from part-time work, and returns from investments that you would enter on a tax return.

Savings – The total of all of your mutual funds, stocks, bonds, CDs, money markets, real estate equity, or similar financial resources. Annual Savings Input refers to what you take from your wages and deposit in a bank or investment account. Further distinction between Preretirement and Postretirement savings is provided. Preretirement Savings would include employer annual contributions such as matching funds for a 401(k). Generally, Postretirement Savings there will be no savings in retirement, but this may include new income you save from a part time job.

Expenses – This will also include both unusual and infrequent expenses as well as normal living cost that would be paid out in the course of one year. In preretirement planning expenses that would occur in retirement also include income tax and debt payments, in postretirement planning they do not. The Autopilot method distinguishes between these in its calculations. Usual Expenses are expenses that occur on a regular basis such as utility bills, insurance, entertainment etc. In preretirement they also include taxes and debt payments, in postretirement planning they do not. Infrequent Expenses are non-reoccurring expenses such as an expensive vacation, the purchase of a new car or house, a large one-time hobby expense (building of an observatory with equipment).

In the Autopilot method it is assumed both normal living expenses and unusual expenses will always grow with inflation and is incorporated in its calculations. These inflation adjusted numbers are always shown in today's dollars. This is a key concept in this book where future cost and/or savings are presented to the reader in today's value to make the presented numbers easier for the reader to relate to. For example, the cost of a loaf of bread in 30 years may be projected to be 3x of todays cost, the 3x value is not used. Similarly, when discussing the value of a nest egg, or the performance of an investment over time the Inflation Adjusted Returns is presented to the user; this is the growth after inflation is taken into account.

A key input that must be assumed throughout Autopilot calculations is the Inflation rate, so it is vital a realistic value be selected, the reader should error on the conservative side (higher inflation assumption) when determining this value. An example of the impact of selecting different inflation rates is provided in Figure 2.7. This also demonstrates why today's dollars are used since values rapidly start to become difficult to imagine.

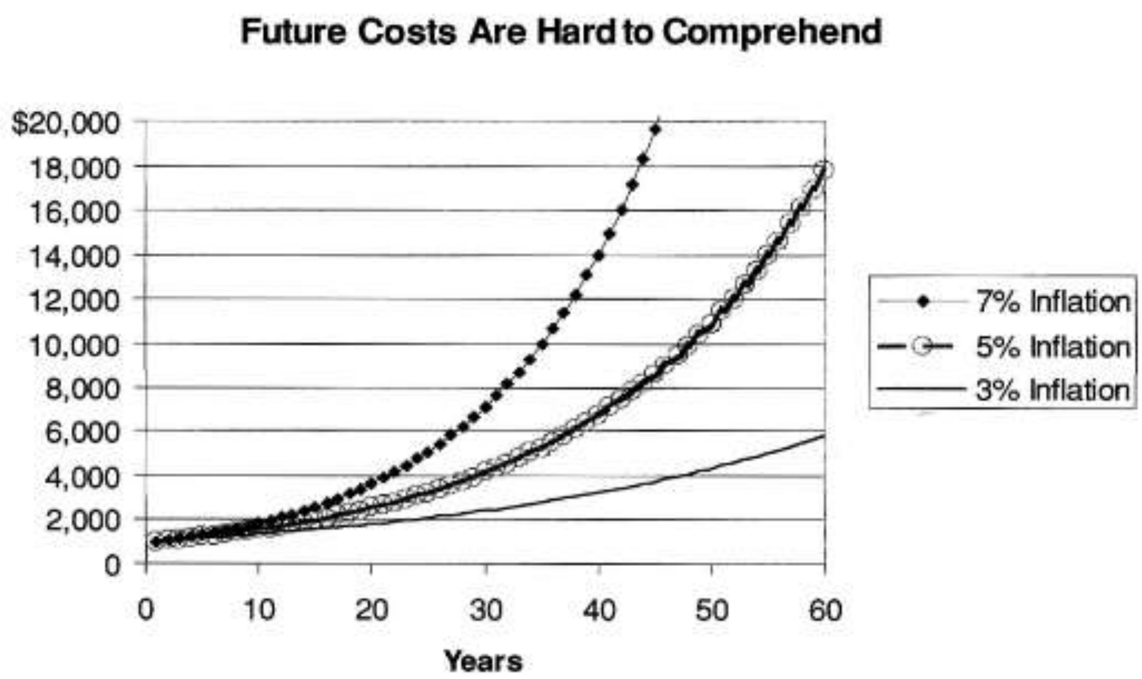


FIGURE 2.7 What a $1,000 item will cost you in the future at three different inflation rates.

Affordable Expenses –The level of expenditures that will get you through retirement without depleting your savings before you die. These are expenses that are constrained to ensure you don't down your savings too quickly in retirement. Affordable Expenses are calculated on a yearly base in retirement and are part of the yearly budget that is subject to change each year to reflect changing market, and inflation conditions. Figure 2.8 demonstrates how a yearly budget may change over time and shows how it is dynamically adjusting with small increments to ensure your retirement savings last and to litigate the risk of drastic changes from year to year. It also demonstrates why using Today's dollars is a good method of presenting data. Examining the future growth values may lead the reader to assume their budget will continue to increase allowing for more expenditures as time proceeds, but when the Today's values are reviewed, you can see the retiree's budget is actually decreasing over time in terms of purchasing power of that budget. Hebeler also points out that if the retiree wanted to ensure their budget does not decrease over time they may only need to make a slight (5% - 10%) decrease in their budget. Conversely, overrunning the budget during the early phase of retirement or on a regular basis can have disastrous outcomes.

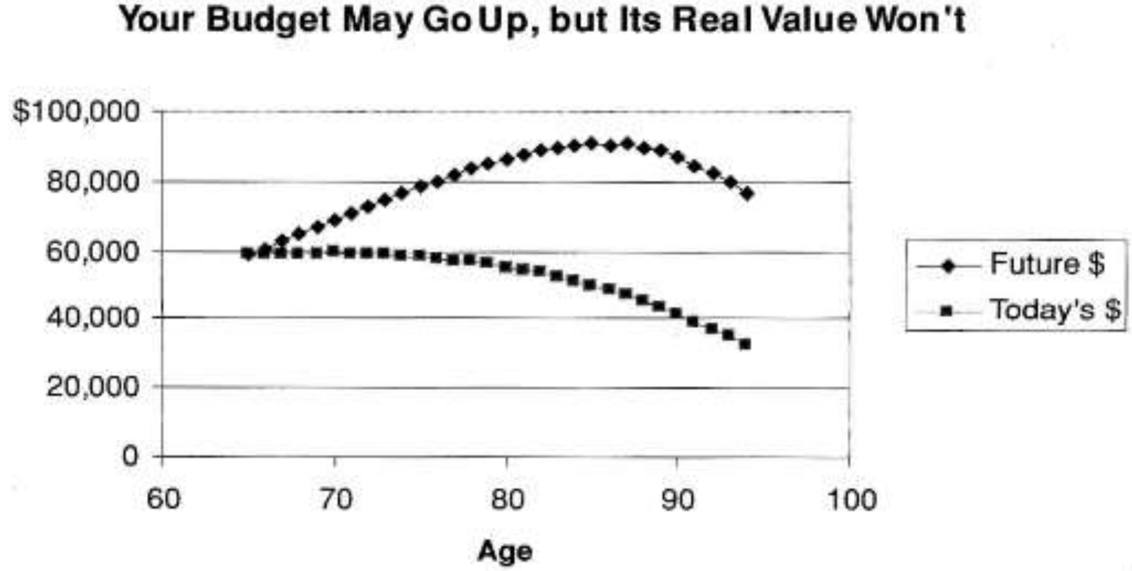


FIGURE 2.8 Idealized affordable expense history shown both in future dollars and today's dollars.

Oh Shoot! I Forgot!

This refers to the items that were unintentionally left out considerations for retirement and included in budget calculations. These include:

- **Healthcare** associated cost including Dental, Medical and Drug cost increases associated with age.
- **Household** cost including repair (i.e. roof, flood damage) and maintenance or remodeling, HOA or condo fee increases.
- **In periodic expenses** – Unexpected Repairs or replacement of large ticket items including Cars, Water heaters, Computers, dishwasher, drier, televisions, etc.
- **Sevier market drops**
- **Higher Inflation** – Short or long term higher inflation then predicted.
- **Social Security Lag** – The fact that increases in Social Security does not keep up with the increases of inflation for most retirees.
- **Family Cost** – A relative that needs financial assistance, unexpected travel expenses for a sick relative.
- **Assisted living Expenses** – For yourself or your spouse due to infirmity.

The impact of these items might be litigated by adding and additional line item in your future retirement plans (ie an extra $2,000-$10,00 per year) in your yearly budget that is not designated for any particular item, you might refer to this as **Unplanned Expenses** in the budget.

Uncle Sam Will Share Retirement with You

It is impossible to predict what future tax rates will be but historically the overall trend has been for them to increase. One factor pointed out is that Social Security and Medicare are large programs that will have great strains put on it as the demographics change. In 1900, 7.3% of the U.S. population was over 65. In 1995 it increased to 20.9% in 2020 it was 28% and by the year 2040 it will be almost 37%. Either benefits to these programs will need to be decreased or taxes will need to be raised. Both of these situations will impact your retirement plans.

Computing Your Net Tax Rate –The Net Tax Rate is defined in this book as

$$\frac{State\ income\ tax + Federal\ income\ tax}{Gross\ Income}$$

Income Tax is the annual amount that you calculate on a tax return. It is not the tax that is deducted from Social Security or Medicare, nor any of the other taxes you may pay such as real estate, personal property or automobile.

Gross Income As used in this book is defined as the annual total of wags, alimony, Social Security, pension, and/or annuity payments, and all income from investments, including dividends, both taxable and tax-exempt interest, capital gains, income from businesses, both Roth and Regular IRA distributions, and before-tax cash flows from investment real estate.

One way to predict your future tax rate is to calculate your current tax rate and adjust this up or down based on what your expectations are for your retirement. A conservative approach is recommended which means probably adjusting your expected tax rate up a few percent. Use caution when performing tax calculations since the results of these calculations will be used as part of your budget projections in retirement.

Chapter 2 Spreadsheets

- Figure 2.9 – Last Years Taxes
- Figure 2.10 – Last Years Gross Income
- Last Years Tax Rate

Figure 2.9

Last Year's Income Taxes (Figure 2.9)			
Line	**Source**	**Amount**	**Comments**
1	Federal Income Taxes		
2	Sate and Local Income Taxes		
3	**Total Income Taxes**	**$0**	Line 1 + Line 2

Figure 2.10

Last Year's Gross Income (Figure 2.10)			
Line	**Source**	**Amount**	**Comments**
1	Wages if working		
2	Pension and annuity payments if received		
3	Alimony if received		
4	Business before-tax net cash flow		
5	Real estate before-tax net cash flow		
6	Interest, dividends, & capital gains		
7	Nontaxable investment income		
8	Roth distributions if received		Typically Roth income is not included as taxable income.
9	IRA distributions if received		
10	Social Security if received		
11	Other Income		
12	**Total equal gross income**	**$0**	Sum Line 1 to Line 11

Last Year's Tax Rate			
Line	**Source**	**Amount**	**Comments**
1	Last year's Taxes		
2	Last year's Gross Income		
3	**Last Year's Tax Rate**		Line1 divided by Line 2

Other Stuff You Really Should Know about Taxes –Tax treatment of different types of money should be consider when selecting investments and planning retirement. For instance investing in a growth stock mutual fund in a ROTH get can help boost your retained gains from the fund, since these funds regularly buy and sell stocks, these event triggers taxes that must be paid on gains, but since this fund is in a Roth the taxes on these gains will never have to be paid. Conversely purchasing a safe low interest paying bond fund would be an inappropriate investment for a Roth since gains and corresponding taxes on this type of fund would be low.

For persons in very high tax brackets lower paying municipal bonds may be a more appropriate investment than higher paying corporate bonds since many municipal bonds are exempt from tax by the federal government and many times the state.

Tax considerations may even come into play when deciding how long to hold an investment in a taxable account since long term investments (investments held over one year) may be taxed at a much lower rate than short term investments (investments held less than one year) investments since short term investments are taxed at the same rate as your ordinary income tax rate.

Coping with Uncertainty

There are many things in the future that we cannot predict and we have no control over including:

- **Life Expectancy** How long you and your partner (if you have one) will live.
- **Inflation Rates** That will change year to year.
- **Return On Investments** That are determined by stock market swings and the class of investments you have in your portfolio and the performance of the individual investments.
- **Pension Risk** No one can predict if the organization providing you pension may go belly-up.
- **Tax Rate** Federal and State taxes are constantly in flux.
- **Medicare and Social Security** Both of these programs typically play a large role in a persons retirement plans and both of these programs face some significant head-winds in the near future.
- **Unexpected Expenses** Medical emergencies, Natural disasters, and other unplanned expenses.

Fortunately there are two mechanisms utilized in the Autopilot method to help compensate and minimize theses uncertainties:

- **Feedback** – Budget calculations should be done on a yearly bases to make periodic smaller corrections as opposed to major changes to your retirement plan (preretirement) or budget(postretirement).
- **Limiting Equation** – The Autopilot method introduces limits to the allowed extreme changes that may be indicated. For example a drop of 50% in the stock market could wreak havoc on retirement planning.
- **Statistical Cancellation** – With all of these uncertainties it is likely that some changes in one of the uncertainties may compensate of changes in the opposite direction of another uncertainty resulting in less extreme overall impact of these uncertainties in your retirement planning or retirement budget. This also applies to the time element in that year to year uncertainties may be more pronounced that over a multi-year period. A fact that the Limiting Equation benefits from.

Implementation of these controls in the Autopilot method help provide a stable retirement plan for your situation.

Chapter Closing Thoughts

A lot of material is covered in this chapter, it's purpose is to introduce us to new concepts and to makes sure we all have the same understanding of terms and concepts that will be used throughout this book. Some vital points that need to be understood because these are fundamental to the Autopilot method are:

- **Compounding** – It is hard to overstate the impact compounding can have on your retirement funds. It can work in your favor if you save as much as possible as early as possible before retirement. Conversely, compounding can have a devastating impact when it comes to inflation. Further, you can take advantage of the power of compounding by Front loading your savings and back loading you're spending – This simply means to save as much as you can as early as possible, and delay spending as long as possible to allow your savings to grow as much as possible through the magic of compounding.
- **Life Expectancy Tables** – Your life expectancy is adjusted upwards as you age. Applying this change in your budget calculations in retirement will ensure you will not outlive your assets. It also means that your budget will likely slowly decline over time.
- **Unexpected Expenses** – Will happen in retirement. I recommend budgeting a yearly amount to account for this. If you don't use the amount one year, roll it over into a pool and contribute the next year's unexpected expenses into the pool. Let this pool continue to grow so it can handle larger and larger unexpected events to help insure a reliable budget in your retirement.

Hebeler also makes the argument that you should eliminate unneeded expenses (ie that new phone, eating out every night, large vacations, etc) since over time (compounding) these can prove to be very costly. I agree with this in concept, but think there is a balance to be made here. If you discover you are very well funded in retirement, take that vacation, purchase that $10,000 telescope. There is no need to live like a monk just to discover on your last days that you have tens of millions of dollars that will go to family or the government. When planning to spend money consider :

- Will this purchase put my retirement finding at risk?
- The impact of this purchase over time to your savings?
- Will this purchase truly make you happier and how long will that happiness last?

Chapter 3: Investments

Chapter Summary

This chapter is used to introduce the reader to many basic investment and planning concepts. It identifies the various types of investments (ie stocks, bonds, etc) the various types of accounts (ie vehicles) created for holding these investments ad finally introduces the concept of Asset Allocation, a process of distributing your investments across various risk level investments to minimalize risk and maximize gains. The importance of placing investments in the appropriate vehicles to minimize tax implications is also discussed. Finally some thoughts on the appropriate approach to creating a plan and implementing it based on the level of involvement you desire are discussed.

References and Resources

- ArtCentrics: Chapter 3 Spreadsheets
  - Investment Comparison
  - Figure 3.1 – Balance And Allocations
- Financial Planning Association: FPA PlannerSearch
- ArtCentrics: Review of Annuities
- ArtCentrics: Review of Vehicles for Retirement
- Investopedia: Roth IRA

Chapter 3 Spreadsheets

- Figure 3.7 – Current Allocations
- Investment Comparison
- Figure 3.11 – Balance And Allocations

Terms and Concepts

Annuity – Contract offered by an insurance company in which you make a lump-sum payment or a series of payments and in return receive a regular disbursement immediately or at some point in the future.

Bonds – A bond is a fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

Deferred Annuities – A contract that promises to make payments at a later date for money provided to the insurance company now.

Equities – Investments that represent ownership such as Stocks or having equity in your house.

Exchange Traded Funds (ETFs) – Similar to mutual funds but are associated with an index, and can be traded any time in the day where Mutual funds trade only after the market closes.

Immediate Annuity – The investor relinquish all control of a sum of money for fixed periodic payments for either a fixed period of time or for life.

Index Annuity – A deferred annuity where payout is linked to the performance of an Index during the accumulation phase (ie S&P 500, etc.). Generally there are low/no fees for these contracts. Usually a certain percentage on a yearly basis can be withdrawn without penalties, and then at the end of the contract term the principle plus any earnings can be withdrawn by the investor. These investments may be the best of the various flavors of annuities available.

Index funds – A mutual fund that purchases stocks or bonds in the same proportion as a particular index (ie S&P 500 Wilshire 2000, etc) and tend to have much lower fees associated with them than standard mutual funds.

Investment Vehicles – Objects/accounts into which you put investments. One of the defining factors that distinguish different vehicles is the tax laws/treatments that the vehicles are subject to. IRAs, 401(k)s Taxable Accounts are all different investment vehicles capable of holding investments as determined by the investor.

Lenders – Individuals or organizations that loan money to organizations or individuals in exchange for interest payments and return of principle after a period of time.

Money Markets – Mutual funds that invest in very short term securities, often bonds with three-month maturities and as a result are very secure, yet pay considerably higher interest than most bank accounts.

Mutual Funds – An entity that owns stocks, bonds, real estate or other investments, and allows investors to purchase shares of the fund. Some mutual funds specialize in a specific group of securities.

Owners – Individuals or organizations that have ownership of a property, stock, or other tangible object.

Securities – Represents various investment vehicles including Stocks, bonds, CDs, Mortgages, annuities, mutual funds etc.

Stocks – A security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

Systematic Risk – The risk everyone assumes when investing in a market, it is the overall aggregate risk that comes from things like natural disasters, wars, pandemics, and other events that cannot be planned for or avoided.

Tax-Exempt Security Trusts – A Groups municipal bonds that gradually mature. They pay out both principal and interest with each payment.

Unsystematic Risk – The risk that is unique to a specific company or industry. This risk can be litigated by appropriate diversification.

Variable Annuity – Essentially an investment vehicle that acts like a collection of mutual funds; These are not fixed income investments until annuitization. These vehicles are notorious for their high commissions and ongoing fees. You should probably avoid these at all cost.

Owners and Lenders

Roles can be assigned to a person based on how they decide to invest capital in a particular situation. Using a Rental property as an example; The person who purchases the property by getting a loan from a bank is an Owner, they have taken on a lot of risk in owning the property since there are many factors that determine if they get the rent for the month. The bank on the other hand is a Lender in that it has provided the capital to the rental owner to purchase the house and is only concerned with the owner making their monthly payment. If for some reason the owner is not able to make payments, the bank is has the recourse of repossessing the property, eventually getting the money back they loaned.

Owners generally take more risk than Lenders, and will generally have more opportunity for profits as a result. At this point a general rule is pointed out that The risker, more volatile an investment is, the greater potential for loss or gain for that investment. This is a key investment concept one must consider when deciding where to invest your funds.

Stocks and Bonds – Persons investing in Bonds, are Loaners while those investing in Stocks are Owners. Of course you will likely play both rolls; owning both Stocks and Bonds in your portfolio. A Stock represents a partial ownership of a company and carries corresponding risk associated with the performance of the company and market conditions. A Bond is a loan to an organization that will receive interest over the life of the loan and at the end of the loan period the principle will also have been returned to the lender.

It should be pointed out here that within both Stocks and Bonds there are varying degrees of risk available. For example you could purchase a super safe 1 year T-Bill from the US government and get a corresponding very low interest payment (ie less than 0.2% of interest as of 2021-11-29) or invest in a super risky corporate junk bond and get 20% interest with a very high probability that the corporation defaults on the loan and you loose part or all your investment.

With Stocks, the more volatile the stock price is over time is generally correlated with risk and associated potential gain or loss of your initial investment.

Fixed Income Investments – Bonds, Certificates of Deposits (CDs) and other investments that pay fixed interest rates.

Annuities – There are insurance products and there are many types and flavors of annuities. Some core elements they all have in common are they guarantee you will not loose our investment in exchange for turning over your money to the company for a period of time. Beyond that annuities can very greatly from product to product. A few types of annuities along with a very brief descript is:

- Immediate Annuity – The investor relinquish all control of a sum of money for fixed periodic payments for either a fixed period or for life. A fixed pension from an employer is essentially an Annuity.
- Deferred Annuities – A contract that promises to make payments at a later date for money provided to the insurance company now.
- Variable Annuity – Essentially an investment vehicle that acts like a collection of mutual funds, These are not fixed income investments until annuitization. These vehicles are notorious for their high commissions and ongoing fees. You should probably avoid these at all cost.
- Index Annuity – A deferred annuity where payout is linked to the performance of an Index during the accumulation phase (ie S&P 500, etc.). Generally there are low/no fees for these contracts. Usually a certain percentage on a yearly basis can be withdrawn without penalties, and then at the end of the contract term the principle plus any earnings can be withdrawn by the investor. These investments may be the best of the various flavors of annuities available.

More information on annuities can be found at the ArtCentrics website, look for the Annuities discussion 2021-04-25.

Equities – Investments that represent ownership such as Stocks or having equity in your house.

Securities – Represents various investment vehicles including Stocks, bonds, CDs, Mortgages, annuities, mutual funds etc.

Mutual Funds – An entity that owns stocks, bonds, real estate or other investments, and allows investors to purchase shares of the fund. Some mutual funds specialize in a specific group of securities. Index funds purchase stocks or bonds in the same proportion as a particular index (ie S&P 500 Wilshire 2000, etc) and tend to have much lower fees associated with them. It is noted that mutual funds held in non-tax differed accounts are not only subject to triggering a taxable event when the mutual fund is sold, actions taken ***within*** the mutual fund itself (ie selling stocks etc.) can trigger a taxable event for you.

Money Markets – Mutual funds that invest in very short term securities, often bonds with three-month maturities and as a result are very secure, yet pay considerably higher interest than most bank accounts, and as a result may be a better place to hold cash.

Investments That Are Like Mutual Funds – Tax-Exempt Security Trusts are groups of municipal bonds that gradually mature. They pay out both principal and interest with each payment. Exchange Traded Funds (ETFs) are very similar to mutual funds but are associated with an index, but can be traded any time in the day where Mutual funds trade only after the market closes. ETFs have a tax advantage because, unlike mutual funds they generally have less taxable events since holdings within the fund only change when necessary to ensure the fund mirrors the index it is tracking.

Higher Growth Rates Mean Higher Risk – As stated earlier more potential for returns and losses are associated with the level of risk in an investment. One method of lowering risk without decreasing returns is through Diversification, a risk management strategy that mixes a wide variety of investments within a portfolio to contain a mix of distinct asset types and investment vehicles in an attempt at limiting exposure to any single asset. This is the idea of eliminating Unsystematic Risk from ones portfolio so that only Systematic Risk remains. The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security. Diversification can be applied across asset classes, or within a given asset class, for example owning an S&P Index fund removes the Unsystematic Risk of owning a single company stock.

Generally the ratio of high risk (Stocks) to low risk (Fixed Income) investments changes in relation to the age of the investor since a younger individual has a longer time horizon to recover from market drops. As one ages their overall portfolio should become more conservative, and correspondingly have lower, steadier returns.

Finally, when accessing risk one must perform a gut check to determine how much volatility they can handle. One must be able to sleep at night during turbulent times, and not be tempted to sell in a panic during market downturns.

Where Do I Start? – Many people are overwhelmed with the idea of managing their retirement plan on there own. There are many wealth management companies that are happy to help. Most charge a 1-2% annual fee. Remember over time these fees along with other hidden charges can severely damage your investment portfolio. If, after completing this book you still would like professional help, consider hiring a fee only Certified Financial Planner (CFP) that is a fiduciary (legally bound to work in your best interest). It is the goal of this book to provide you the knowledge you need to manage your own retirement. Betterment seems to have a good approach also.

Doing it Yourself – Below are some very high level key steps that need to be taken when doing this own your own:

- **Allocate Your Investments** – Determine what percentage of your portfolio to have in the various asset classes; Stocks, Bonds and other fixed income investments, real estate, and money markets
- **Investment Vehicles** – Determine the ratio of deferred tax investments, taxable investments and tax-exempt investments in your portfolio.
- **Particular Investments** – Determine the individual investments for your portfolio.

All of these steps will be covered in this book.

Asset Allocation

Asset allocation is one of the first decisions to make for your investment plan. The ratio of Equities (Stocks, etc) to Fixed Income (Bonds, etc) investments will be pivotal in the accumulation of wealth over time. In addition to showing how different portfolios with three different ratios (100% Equities, 50/50, 100% Bonds) perform in wealth accumulation in preretirement, an example of the same ratios is shown as funds are spent down in postretirement is provided.

Preretirement Scenario Conditions

- Begin Savings at age 30
- Saving $10,000/year, and increased each year to match inflation
- Cost: 1.5% for stocks and 1.0% for bonds
- All savings placed in a 401(k) so there is no taxes on earning (until they are withdrawn)
- Three separate Asset Allocation scenarios:
    - 100% Large company stocks
    - 100% Long term corporate bonds
    - 50% Stocks & 50% Bonds with rebalance every year to maintain 50/50 ratio

Figure 3.1 and Figure 3.2
Comparing Three Asset Allocations Performance In Preretirement

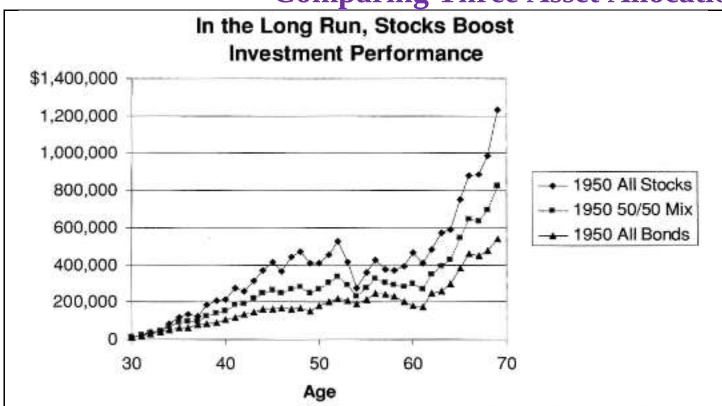


FIGURE 3.1 The investment balances of three different portfolios if saving started in 1950. Values have been adjusted for inflation.

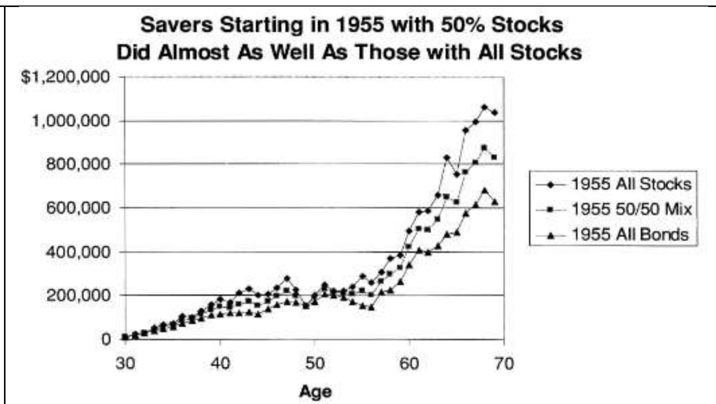


FIGURE 3.2 The investment balances of three different portfolios if saving started in 1955. Values have been adjusted for inflation.

Method	Starting in 1950 (Good Times) Observations after 40 years	Starting in 1960 (Bad Times) Observations
100% Stocks	• **$1,240,000** accumulated • $540,000 to $280,000 drop in value • 48% loss at age 52 - 55	• **$1,040,000** accumulated • $280,000 to $140,000 drop in value • 50% loss at age 52 – 55 • 20% difference in final value between two scenarios (good times vs bad times)
50/50	• **$830,000** accumulated • $332,000 to $272,000 drop in value • 18% loss at age 52 - 55	• **$840,000** accumulated • $220,000 to $140,000 drop in value • 36% loss at age 52 – 55 • 1% difference in final value between two scenarios (good times vs bad times)
100% Bonds	• **$540,000** accumulated • $220,000 to $190,000 • 14% loss at age 52 - 55	• **$620,000** accumulated • $190,000 to $180,000 • 5% loss at age 52 – 55 • 14% difference in final value between two scenarios (good times vs bad times)

Additional Observation: Both 100% stocks and 100% Bonds behave more variation in the final portfolio value than the 50/50% mixture. This is interesting in that one would assume that the 100% bond fund would be less volatile, but remember the bond yields and prices will fluctuate with inflation and market conditions. The 50/50 mix seems to stabilize results because as a general rule, the bond and stock markets tend to have inverse performance.

Postretirement Scenario Conditions

- IRA Account
- Retire at age 65
- $1,000,000 in savings
- Withdraw $35,000 + 15% taxes each year plus adjustments for inflation.
- Cost: 1.5% for stocks and 1.0% for bonds
- Three separate Asset Allocation scenarios:
  - 100% Large company stocks
  - 100% Long term corporate bonds
  - 50% Stocks & 50% Bonds with rebalance every year to maintain 50/50 ratio

Figure3.3 and Figure 3.4
Comparing Three Asset Allocations Performance In Postretirement

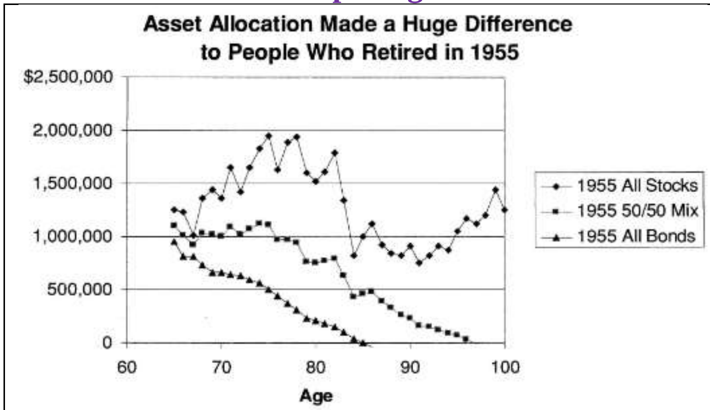


FIGURE 3.3 The investment balances of three different portfolios if retirement started in 1955. Values have been adjusted for inflation.

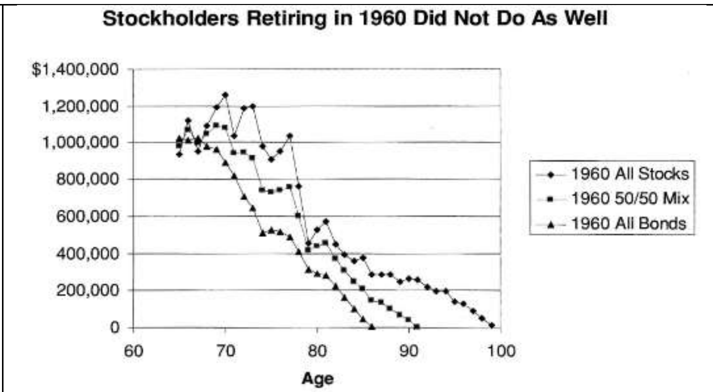


FIGURE 3.4 The investment balances of three different portfolios if retirement started in 1960. Values are adjusted for inflation.

Method	Starting in 1955 (Good Times) Observations	Starting in 1960 (Bad Times) Observations
100% Stocks	• Never runs out of money • More than ½ money loss at 83 years old	• Out of funds at 99 • 14+ year difference between two scenarios
50/50	• Out of funds at 97	• Out of funds at 91 • 6 year difference between two scenarios
100% Bonds	• Out of funds at 85 yrs	• Out of funds at 87 • 2 year difference between two scenarios

For the 100% stock mix, we see a 14 year difference between the Good Times and Bad Times scenarios. High volatility is probably the last thing you want in retirement. The 100% bond mixture behaves as expected and is consistent between the two scenarios with 2 years difference.

The 50/50 percent mix performance between the Good Times and Bad Times is, as expected, close to midway between the 100% Stocks and Bonds allotment. What we can take away from this is that there is a trade off between volatility and of performance and stability of investment, so the question you need to ask is what the appropriate allotment for you?

Hedging Your Bets – We can conclude that a combination between Stocks and Bonds can provide both a measure of stability and performance to a portfolio. The technique of decreasing the percentage of stock holdings by 1% and increasing bond holding by 1% a year can help optimize the trade off between volatility and performance with the additional benefit of providing quite consistent final results. This is one of the key features of the Autopilot method.

Figure 3.5 and Figure 3.6
Periodic Stock Allocation Adjustments Can Reduce Volatility and Stabilize Performance

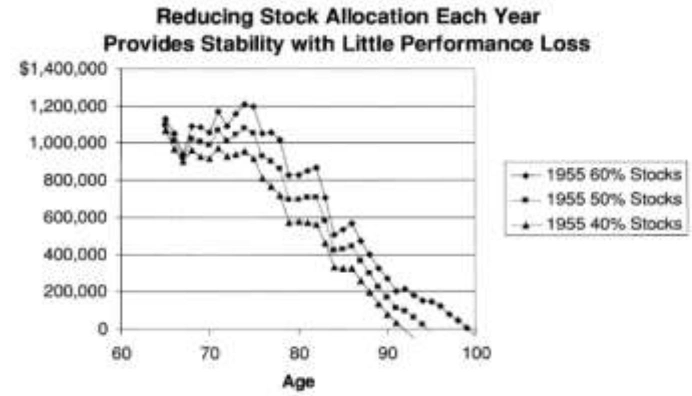


FIGURE 3.5 Inflation-adjusted balances show the effects of reducing the amount of stock in three different portfolios by 1% each year, beginning in 1955.

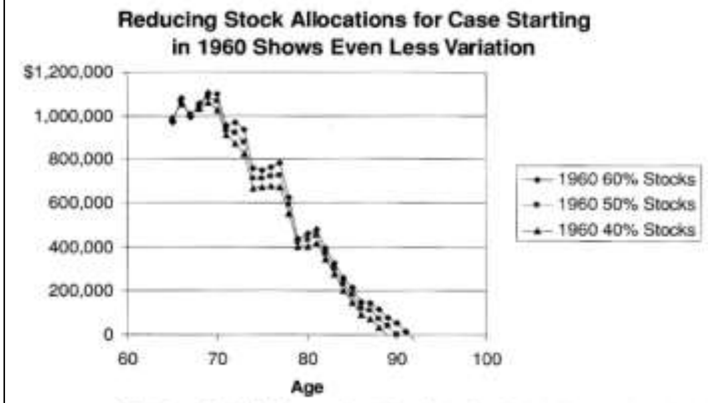


FIGURE 3.6 Inflation-adjusted balances show the effects of reducing the amount of stock in three different portfolios by 1% each year, beginning in 1960.

Some Practical Considerations in Investment Allocation – Before adjusting your asset allocation consider these things:

- Employer Dependence - Make sure you are not too dependent on your employers success. Owning company stock, Stock Options, Pension Plans, deferred compensation, etc. all depend on the viability of your company and as a result represent Unsystematic Risk consider minimizing this risk when possible.
- Debt Review – Reducing high-interest loans and credit card debt can me more important than a better allocation of your investments. Review and reevaluate your debt.
- Exact precision is not needed – Maintaining your allocation to within 5% of your targeted amount is sufficient. An annual review and update should be all you need to ensure you are on target.

Allocating Your Investments – Use the worksheet(Spreadsheet) below to calculate your current Asset Allocation. What is the appropriate Allocation for you? Hebeler recommends using the formula:

$$Percent\ Equities = 110 - Your\ Age$$

For couples, you may want to consider using the age of the younger person.

Figure 3.7

Your Current Investment Allocations (Figure 3.7)				
Line	**Item**	**Current Value**	**Totals**	**Comments**
	Equities			
1				
2				
3				
4				
5				
6				
7				
8				
9	**Total Equities**	**$0**	**$0**	
	Cash			
10				
11				
12				
13	**Total Cash**	**$0**	**$0**	
	Fixed Income			
14				
15				
16				
17				
18				
19	**Total Fixed Income**	**$0**	**$0**	
20	**Total Investments**		**$0**	

Be Sensitive to Risk – When determining the exact allocation of assets that best works for you. You need to consider your tolerance for large market swings. Ask yourself how you can handle 10%, 20%, 30% or more drops in the market and make appropriate changes to you allocation accordingly.

Since 1926 large company stocks on average dropped:

- 1 in 5 years a 10% loss
- 1 in 10 years a 20% loss
- 1 in 20 years a 30% loss

Remember, the percentage of holdings NOT in equities should dampen the swings of the market, although it is not uncommon for other investments to dip when market conditions go south. So a portfolio with a 50/50 percent mix may only decrease in overall value by 20% if the market (equities) takes a 35% dive. Determine the value that works for you and adjust the 110 number up or down to accommodate your comfort level.

Need for Cash – Funds for large expenditures for items like a new car, house remodel, etc that may occur in the near future (ie 5 years or less) should reside in a cash equivalent location such as a money market fund. This will ensure you don't have to sell stock to raise capital when the market is in a slump.

What about the Equity in Your Home? – Generally you should not include the equity in your house in your asset allocation. Simply because you will always need a place to live. Exceptions to this rule may be if you plan on selling your house and renting (remember to increase your living expenses to include rent) or for a reverse mortgage where you typically may include about 40% of the value of your house. Downsizing is another possible exception, but downsizing may not provide as much funds as you may initially think, remember there are house selling fees, closing cost, purchasing, moving cost etc. So if you downsize only include the remaining equity after all of these expenses are subtracted.

Allocation Control – Keeping your asset allocation within 5% of your targeted value should be sufficient. Check your allocation twice a year, you will find that adjustments will probably only need to be performed once every year or two. When you first perform the analysis, there may be large adjustments required, you don't have to make all adjustments at the same time but can spread this out over a number of months. Also remember possible tax consequence of making adjustments. For Tax-deferred accounts such as IRAs, Roths, 401(k) there is not tax impact, so they should be adjusted first.

Subdividing Your Allocations – Equities, Fixed Income and Cash are Classes of Investments. These can be further divided in many different ways with varying granularity. The author recommends keeping this simple and supplies his subdivisions.

Class	Sub Divisions	Comments
Equities	• Large Company Stocks • Small company Stocks • Growth Company Stocks • Real Estate	
Fixed Income	• Intermediate-term municipal bonds • Money Markets? • Bond Funds • Government Bonds	Not sure why Money Markets were included here, and he seems to have missed other bond type investments.
Cash	• Money Markets and CDs • Checking and Savings	

Ideally we would like to identify an investment option to counter when stocks drop. This has proven elusive, in that usually when undergoes major corrections other investment classes tend to perform poorly also, although not as much.

Hedging against inflation is also difficult. Social Security, Pensions/annuities with Cost of Living Adjustment, real estate and even Real Estate Investment Trust (REITS) can help litigate the ravages of inflation to a limited extent. Other sectors that may stand up under inflation include Commodities and Energy. Finally Series I inflation-adjusted U.S. savings bonds are linked to inflation and are another option.

Modern Theories on Allocation – The author questions the benefit from a fine-grained approach for asset allocation.

Note For Highly Taxed People – Investments in tax differed accounts such as IRAs 401(k)s SEPs etc may not be worth as much as taxable accounts because withdraws from these accounts are taxed at your ordinary tax rate as opposed to the long-term capital gains tax rate for holdings in a taxable account. One way to increase the accuracy of your calculations is to decrease the value of the differed accounts by your tax rate (if you are highly taxed, this doesn't really do any good for folks who are not in a high tax bracket).

Summing Up Allocations – Here is a summary of steps to take for a good allocation:

- Take Assessment **-** Complete Figure 3.7 to determine your current assets and allocations.
- Tackle Debt – Identify any debt that needs to be paid off or refinanced and execute the plan.
- Settle on your Allocation Ratio – Determine the percent of Equities vs Fixed income that is appropriate for you.
- 5 year cash – Determine how much cash you will need for the next five years and ensure they are in highly liquid assets that you can easily access such as money market accounts, checking, savings, etc.
- Subdivide Equities – Determine the appropriate mix of stocks and real estate for your portfolio. Sub-divide stocks into what ever sub-division you are confortable with to ensure a diverse portfolio.
- Minimalize Unsystematic Risk – Try to ensure the success of your retirement plan is not too dependent upon any one company or industry.
- Identify Changes – Compare your current asset allocation with your target allocation. Determine what actions need to be taken to reach your target allocation.
- Select a Vehicle – Determine the appropriate vehicle to reach your target allocation. Details on vehicles is provided in the next section.
- Sanity Check – Review your goals and execution plan with a professional then execute it, this can take up to one year to complete.

Vehicles

Note: This group had an earlier meeting on Review of Vehicles for Retirement. The meeting minutes and recording can be downloaded from the ArtCentrics website here.

Investment Vehicles are objects/accounts into which you put investments. One of the defining factors that distinguish different vehicles is the tax laws/treatments that the vehicles are subject to. IRAs, 401(k)s Taxable Accounts are all different investment vehicles capable of holding investments as determined by the investor..

Vehicles with Tax Deductions – These vehicles include plans such as 401(k), IRA, 403(b), Keogh and other government approved plans. Generally contributions to these funds can be deducted from your income when made and growth in these funds are not taxed until you make a withdraw. When funds are withdrawn from these accounts, they increase your taxable ordinary income. These funds have other restrictions related to the account owners age including penalties for withdrawing money to early, or not withdrawing enough money each year (RMDs) after reaching a certain age.

Employer-Sponsored Tax-Deferred Vehicles – These are deferred compensation plans that are supplemental benefits for highly compensated employees.

Nondeductible IRA Vehicles – Generally same restrictions as and IRA, but contributions to these accounts are not tax deductible. When withdrawing from these accounts you pay taxes only on the growth you earned from them over the years. These are popular vehicles for a Backdoor Roth for higher income persons who may no longer qualify for Roth accounts. This technique may shortly come to an end.

Roth IRA Vehicles – Contributions to these accounts are not tax deductible, but all earnings and gains in these accounts grow tax free, so withdraws from these accounts have no impact on your taxable income. Used properly these can be extremely powerful vehicles and play a key role in tax litigation in retirement.

Variable Annuities – These are insurance products that guarantee your principle and have various mutual fund investment options. Generally there are age restrictions associated with pulling money from these accounts. When the investor is ready to initiate withdraws from these they must convert the account to an annuity. These vehicles are notorious for high fees and commissions and are generally a very poor deal for the investor.

Index Annuities – Another insurance product that preserve the principal investment generally have a 7-10 year withdraw restriction in withdraws. Gain on these accounts are linked to an index (many indexes are available) and are generally capped at a certain percentage gain, or percentage participation to the linked index. More information on these and other annuities can be found here.

Charitable Vehicles – Charitable Trust allow you to donate either cash or appreciated securities, get a tax deduction, and subsequently direct the trust to invest the money in some of their funds. You no longer can use the money for your own income, but you can, at any time, direct the trust to mail checks to legitimate charities of your choice. Other similar vehicles include the Charitable Lead Trust (returns principle) and Charitable Remainder Trust (provide you income)

Your Own Accounts – Ordinary investment accounts are not linked to any particular special tax treatment. A sale of assets in these accounts will generally trigger a taxable event. Long Term Gains (assets held for more than one year) are taxed differently than Short Term Gains (assets held for less than one year). Almost any investment can be placed in these accounts... Stocks, Bonds, Mutual Funds, etc. provided the company hosting the account supports the investment.

Finding the Best Vehicles – Recommendations for those planning for retirement:

1. **Employer Match -** Savings Plans with employer matching at minimum put in as much as employer will match (typically 401k type plans).
2. **Roth IRA** – While you can't deduct the contributions to these funds from your taxable income the year you make them, these funds with any earnings and growth are untaxed when withdrawn provided you meet the requirements.
3. **Employers Savings Plans** – Plans such as 401(k)s even without matching funds allow you to deduct your contribution from your taxes and if you have a lower income you may qualify for an additional Savers Credit on your tax returns.

Beyond these three top items selection of best investment vehicles is more depended on each person's situation. If you own an IRA or have an old 401k you may want to consider converting part or all of them to a Roth IRA. You will need to pay taxes on the funds converted, but the tax savings benefit grow over time and provide retirees a number of advantages and options including the ability to adjust their taxable income, No required Minimum Distributions, and better inheritance benefits. Take note, laws related to Roth conversions are currently under review. Make sure to get the latest information before taking this action.

Measuring Your Vehicle's Value – What vehicle you choose for your investments makes a tremendous difference in the value of your investments when you start withdrawing from them. The higher your tax bracket in retirement the larger these differences become. We will tease out some of these differences for Stock related funds and Bond related funds in the next few sections.

Stock Funds – For Figure 3.8 the following assumptions are made:

- Initial investment: **$1.00**
- Calculated values are after a **20 year period**.
- **10% Return** with **2% dividend** distribution
- **3% Inflation**
- Low Tax rate = **15% tax bracket** with **10% capital gains**
- High Tax rate = **40% tax bracket** with **20% capital gains**

20-Year Ride for $1.00 in Stock Funds
(After 3% inflation)

	Low Tax	High Tax
Deferred Tax Vehicles		
401(k) with 100% matching	$6.33	$4.47
401(k) with 50% matching	$4.75	$3.35
401(k) or deductible IRA	$3.17	$2.23
Above with tax savings invested	$3.72	$3.72
Nondeductible IRA	$3.25	$2.46
Variable annuity with 1% costs	$2.64	$1.86
Variable annuity with 3% costs	$1.82	$1.29
Currently Taxable Vehicles		
No capital gain distributions	$3.32	$2.78
Turn over above fund every five years	$3.15	$2.51
Capital gains distributed every year	$3.05	$2.40
With all ordinary gains	$2.83	$1.78
Tax-Exempt Vehicles		
Roth IRA	$3.72	$3.72

FIGURE 3.8 Growth of $1.00 with stocks invested in various kinds of vehicles.

We can see in this chart confirms the conclusion earlier as to what vehicles are most efficient for retirement. Variable annuities are hands-down the worst option. Note there are other annuity products including index annuities that are not covered in this chart that may behave better over this time period. Don't come to the conclusion that All annuities are bad, (although probably most are). It is vital you understand what **type** of annuity is being discussed in conversation. Pay particular attention to the Roth IRA, this shows the power of tax free growth that becomes greater and greater over time. Another note here, I think the performance estimates of 10% may be a little on the high side and the high tax bracket may be a little excessive, but ultimately that would probably not impact the overall conclusions of this table. Another point of importance is that the Taxable vehicles have additional inheritance advantages. Any heirs that inherit investments residing in a taxable account use the date of your death as the basis of these investments. This effectively means they may pay no taxes on these investments if they sell them shortly after your passing (with the possible exception of inheritance taxes).

Bond Funds – For Figure 3.9 the following assumptions are made:

- Initial investment: **$1.00**
- Calculated values are after a **20 year period**.
- **6% Return** on taxable bonds
- **4.5% Return** on Municipal bonds.
- **3% Inflation**
- Low Tax rate = **15% tax bracket** with **10% capital gains**
- High Tax rate = **40% tax bracket** with **20% capital gains**

20-Year Ride for $1.00 in Bond Funds
(After 3% inflation)

	Low Tax	High Tax
Deferred Tax Vehicles		
401(k) with 100% matching	$3.02	$2.13
401(k) with 50% matching	$2.26	$1.60
401(k) or deductible IRA	$1.51	$1.07
Above with tax savings invested	$1.78	$1.78
Nondeductible IRA	$1.59	$1.29
Variable annuity with 1% costs	$1.25	$0.88
Variable annuity with 3% costs	$0.85	$0.60
Currently Taxable Vehicles		
6.0% bond	$1.50	$1.12
4.0% certificates of deposits	$1.08	$0.89
2.0% bank account	$0.78	$0.70
Tax-Exempt Vehicles		
Roth IRA	$1.78	$1.78
4.5% tax-exempt muni bonds	$1.34	$1.34

FIGURE 3.9 Growth of $1.00 with bonds invested in various kinds of vehicles.

The assumption of 6% and 4.5% returns on bond funds is nowhere close to today's yields and currently (12/2021) inflation is in the 6% neighborhood. Still the data presented in the figure would just shift all values down, but the differences relative to each other will likely remain. This does however indicate that over time (provided conditions remain the same) that that 2.0% bank account is actually loosing money (purchasing power). The conclusions drawn from this figure are:

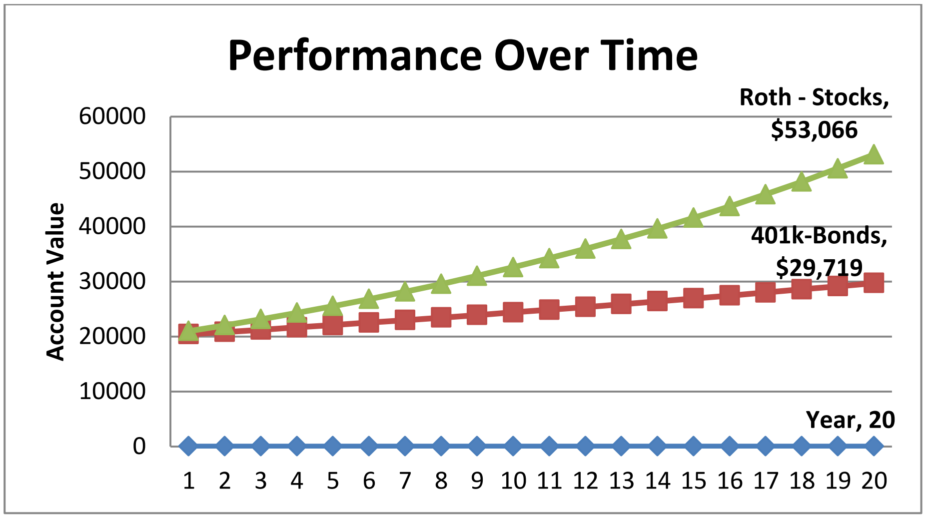
- Employer match still has the best performance.
- 401(k) with tax savings invested.
- Roth – Although the Roth is next in performance here it would NOT be recommended you place bond funds in a Roth, simply because in the overall big picture you will likely have other vehicles that are better suited or conservative investments. More on this will be covered shortly.
- CD's and Bank accounts actually loose value over time. Although you can do worse by putting your money in a mattress.
- Again, with their high fees, Variable Annuities are a very bad choice.

Allocating within Vehicles

Since each investment vehicles has its own unique characteristics when it comes to adding and removing funds from them, we need to identify what particular investments are appropriate for what vehicles.

It is important that to put investments in the appropriate vehicles. Consider if we had $20,000 to invest in conservative bonds and another $20,000 to invest in the general stock market, and assuming the bonds have a 2% average return after inflation while the stock market has a 5% average return after inflation over a 20 year period. Additionally assume you have a tax differed account such as a 401(k) and a Roth account to place these funds in, Ideally you would place the

Bond investment in the tax differed account and the Stock in the Roth account since over the long run the Stocks should greatly out perform the bonds, and as a result the final value of your Roth account (containing all stocks) will be much greater than the 401(k) containing all bonds.



After a 20 year period the Roth account has grown to $53,066 tax free dollars while the 401(k) has grown to $29,719 taxable dollars. By making the choice to place the stocks in the tax free account, we have additional $23,347 tax free dollars than if we had we placed the bonds in the Roth and the stocks in the 401(k)

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Utilizing Figure 3.11(Spreadsheet) we can take assessment and determine what vehicles to place your investments into.

Figure 3.11

Current Balances and Allocations (Figure 3.11)

Line	Vehicles	Current Vehicle Balances	Allocation Classes				New Vehicle Balances
			Equities		Fixed Income	Cash	
			Real Estate	Stock			
1	Roth IRA						
2	401 (k)/Deductible IRA						
3	Nondeductible IRA						
4	Taxable or tax-exempt						
5	Variable Annuity						
6	Other						
7	**Total Allocation**						

Making Smart Investments

This section provides some pointers to assist in making investment decisions.

You'll Make Mistakes – Everyone makes mistakes on occasion while investing. Try to learn from your mistakes, and minimize them by following these pointers and learning from mistakes others have made.

Be Wary of the Media – Be skeptical advice from experts, many times they cherry pick their data or don't include important details as showing performance on an after-taxes basis.

Getting Started with Mutual Funds – If you are new to the investment game, no-load mutual funds from large investment funds (Vanguard) are a good start. Depending on your risk tolerance a mix such as 40% bonds to 60% stocks, or 60% bonds to 40% stocks is a good starting point. While Index funds (see below) may be a better selection for strictly stock selections as opposed to a mutual fund; generally a well managed Bond fund will perform better than bond index funds unless you purchase the bonds directly (complicated) and hold the bonds to maturity.

A Better Approach with Stock Mutual Funds – While mutual funds with a bond/stock mix provide a quick and easy way of investing, you will probably do better by creating your own bond/stock mix by investing in an index fund representing the stock market (such as the S&P 500, Wilshire 5000, Wilshire 2000, etc) for your stocks and a well managed bond index fund (ie PIMCO).

Fees, Loads, and Taxes Can Be Painful! – Brokers, Mutual funds and money managers all charge a fee and are inherently at a dis-advantage because of this. Many studies have shown you have a much better change of better performance by using index funds (for stocks) over actively managed mutual funds. Over a 15 year timeframe Index funds generally over perform about 90% of Actively managed Mutual funds. Perhaps one of the greatest mutual fund managers of al time and one of the riches persons in the world(3rd riches in 2016), Warren Buffett, bet three hedge fund managers $1million dollars that a simple index fund he selected would out perform any investments they picked over a 10 year period. Warren won the bet – This is an interesting listen if you have 20 minutes to spare. An additional barrier for mutual funds is that they tend to trade more than index funds, and this has tax consequences associated with purchasing and selling stocks.

Purchasing Individual Stocks – Purchasing individual stocks is not recommended for most investors. There are far too many factors, known and unknown to be able to make an informed decision. If you do want to dabble in purchasing stocks, only invest what you are confortable in losing. I must admit I purchase more individual stocks than I probably should, and historically my performance on these selections has not been great.

Exchange Traded Funds – Exchange Traded Funds (ETFs) are very similar to Index Funds where Index funds are generally very low cost mutual funds and trades are completed at the end of the day, ETFs behave more like stocks and can be traded within the same day and behave more similar to stocks. Honestly the distinction is so small I pretty much consider them the same. One point of warning, there are a ton of ETFs and Index funds that can be very specialized, these targeted/sector funds loose the advantage of being a broader market selection and are subject to a much higher risk. I would generally avoid targeted ETFs and Index funds.

Fixed Income Investments – If you have less than $100,000 for bond investments you will likely do best by selecting a well managed bond index fund (ie PIMCO) or a Unit Trust.

Purchasing Individual Bonds – If you have large sums of money and intend on holding bonds to maturity, you may want to work with a bond broker for your bond purchases. Be aware that many bond brokers charge excessive fees, so you must be careful in your selection of brokers. Maturity dates of purchased bonds should coincide with your need for cash and should be laddered so bonds mature in different years. The laddering technique helps reduce risk of inflation variation and provides better liquidity than purchasing bonds that mature at the same time. Make sure to minimalize risk of default by purchasing bonds from different sources (ie industries, or government bodies). Restrict your purchase to aa or better rated bonds. High risks bonds should only be purchased in an index or similar fund that will pull many high risk bonds together to spread the risk of default of any individual company. You can also purchase government bonds such as EE and I bonds directly from the government. I bonds are tied to the inflation rate and provide a good hedge against inflation. Current rate for I bonds is 7.12% for bonds issued from November 2021-April 2022. You must hold these for a minimal of 5 years to avoid any penalties for redeeming.

Municipal Bonds – Municipal Bonds (muni) are strictly for persons in high tax brackets. Munis have lower yields than other similar risk bonds, but the gains from their yields exempt from federal taxes and may be exempt from state taxes, so may perform better than other bonds for higher taxed individuals. Although, high muni bond interest can trigger alternative minimal taxes or taxes on Social Security benefits. Remember even Municipal bond funds can trigger capital gains.

For the Richer Set – If you have substantial taxable investments and you want to leave funds to your heirs you may want to have your stocks in a taxable account and your bonds in a tax deferred account. This is because basis of inherited stocks is valued at the price of the stock at the decedent's date of death if the stocks were held in a taxable account. Inheritance from a tax differed account (ie IRA, 401k, etc.) is taxed at ordinary rates and have a number of restrictions that may result in excessive taxes to the person receiving the inheritance.

Charitable minded individuals may want to consider a Charitable Gift Annuity, Charitable Remainder Trust (CTR) or Donor-Advised Funds to litigate taxes.

Real Estate

Various types of Real Estate investments are mentioned including:

- Real Estate Investment Trusts (REITS) – The easiest and least demanding way to invest in real estate, you can purchase a REIT Index or individual REITS for vary specific sectors (ie Storage unit REITS, Server Farm REITS, etc.).
- Rental Partnerships – Very illiquid with many tax, and management pitfalls.
- Rental – Hands on management, book keeping, extra taxes to manage, and maintenance required.
- Vacation Home – If rented for less than two weeks, no special tax reporting requirements if rented for more than two weeks out of the year, same issues as a standard rental.

You Home as an Investment – You should not count your house as an asset when determining funds for retirement because you will always need a place to live. Downsizing, Reverse Mortgages and selling so you can rent will generally provide much less money then you may expect. Renting a room from your house could be an option, but there are risk with this and you will need to file taxes accordingly.

Investing in a House: Some Economic Facts! – Purchasing a home generally is a better investment than renting over extended periods, especially in periods of high inflation. For vacation homes, they almost always bad investments, an idle house is worth less than money under your mattress. Purchasing a house that is much larger than your needs is a poor investment due to the extra taxes, utilities and maintenance.

But I Want To Relax!

Even if you enjoy managing your retirement plans and investments, there may become a time as you get older where you don't want to continue to due this. This section provides some information when looking for simple alternatives to managing your funds yourself.

Alternatives to Paying for Convenience – One of the easiest ways to manage your accounts is to get a good balanced fund, and have the dividends and capital gains go to a money market fund. Another slightly more complicated option is to by an Index fund representing the overall market for your stock allocation, and I bonds for your fixed income.

Turning your Portfolio Over to Someone to Manage – When looking for a financial advisor make sure to get other opinions from an accountant or certified financial manager.

Fixed-Term or Lifetime Annuities – Fixed annuities pay so little you will likely do better owning a balanced mutual fund.

Variable Annuities – Steer clear of variable annuities. Index annuities may be worth consideration.

Some Investments to Avoid – Partnerships, Oil drilling, precious metals and gems, collectibles, commodities (except in an index fund), any living creature, almost all forms of leverage, speculation or gambling, securities with tax complications, anything that cannot easily be sold.

The Ultimate Easiest Way – Engage with a fee only (charges by the hour) professional planner that you can visit annually and review investments and plans.

Chapter Closing Thoughts

We have covered most, but certainly not all of the major types of investments one should consider in their retirement planning. The technique of applying Asset Allocation add stability to your portfolio and a degree of predictability to how long your funds will last in retirement, additionally it has been pointed out that it is very important to place the each investment in the appropriate investment vehicle to minimize taxes, provide more flexibility and maximize how long your funds will last in retirement. Each person will have a level of comfort for the volatility of their portfolio; This consideration should be key in helping you consider exactly what the correct ratio of equities/fixed income (ie stocks/bonds) is appropriate for you.