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MANAGING RETIREMENT WEALTH

AN EXPERT GUIDE TO PERSONAL PORTFOLIO MANAGEMENT
IN GOOD TIMES AND BAD

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author of The AARP Retirement Survival Guide

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Praise for *Managing Retirement Wealth*

“I have found Julie Jason’s *Managing Retirement Wealth* to be an excellent overview, a helpful and detailed guide in the investment process of my personal portfolio management.”—Peter Hathaway, retired, former portfolio manager in charge of over \$10 billion of assets for GE Asset Management’s U.S. Equity Large Cap Value Strategy

“In your hand is a book that is chock full of information on everything from muni bonds to risk management. It is a great way for anyone trying to pick up the basics—or go beyond them—as they build a strategy for a new economic climate. And in an age with so many economic uncertainties, Julie Jason’s *Managing Retirement Wealth* is as good a place as any to bone up on the bewildering but rewarding task of putting our futures in order.”—Jonathan Dahl, editor in chief of *SmartMoney*, the personal finance magazine from the *Wall Street Journal*

“If you have not placed an emphasis on how you manage your portfolio, now is the time to do it. Julie will show you how.”—Charles Rotblut, CFA, vice president, American Association of Individual Investors, author, *Better Good than Lucky*

“Julie Jason’s *Managing Retirement Wealth* gets what most investment books miss—investing is a means to an end. If you achieve your goals and provide greater security and opportunity for your loved ones, that’s what really matters. This fine text will prepare you to make smarter decisions about the choices that matter most, the ones that lead to your retirement success.”—Don Phillips, managing director, Morningstar

“At some point in our lives, we will care deeply about preserving the money we’ve worked so hard to save. Julie Jason’s newest book, *Managing Retirement Wealth*, will take you by the hand and show you how to create the only investment portfolio you will ever need in retirement.”—Pam Krueger, executive producer and cohost of the award-winning PBS series *MoneyTrack* and EIFLE Financial Educator of the Year 2010

“Julie Jason’s *Managing Retirement Wealth* is written with the reader in mind. The book provides clear explanations of complex financial market topics and guides the reader on how to design, manage, and evaluate a portfolio to meet retirement needs.”—Tom Robinson, PhD, CFA, CAIA, CFP; managing director, Education Division, CFA Institute

“At last, a sensible guide to creating a sound retirement portfolio. It’s all here—creating cash flow, understanding risk, and the actual mechanics of keeping your money working for you the rest of your life.”—John F. Wasik, Reuters columnist and author of *The Cul-de-Sac Syndrome: Turning Around the Unsustainable American Dream*

“A sturdy, basic, thoughtful, and extremely useful primer to get the investor off the

starting line and well down the track to a successful financial future.”—Ben Stein

“Julie Jason gets it! Anyone who is interested in understanding personal portfolio management should read her book. She explains complex ideas simply and points out simple concepts that are easy to overlook. I thoroughly enjoyed, and learned a great deal from, her book, *Managing Retirement Wealth*.”—Richard Berkowitz, Esq., senior partner, Berkowitz, Trager & Trager, LLC of Westport, CT

MANAGING
RETIREMENT
WEALTH

*An Expert Guide to Personal Portfolio Management in
Good Times and Bad*

Julie Jason

Forewords by

Peter J. Hathaway, Jonathan Dahl, and Charles Rotblut





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ISBN 978-1-4027-8272-5 (paperback)
ISBN 978-1-4027-8927-4 (ebook)

Library of Congress Cataloging-in-Publication Data

Jason, Julie.

Managing retirement wealth : an expert guide to personal portfolio management in good times and bad / Julie Jason ; forewords by Peter J. Hathaway, Jonathan Dahl, and Charles Rotblut.

p. cm.

Includes bibliographical references and index.

ISBN 978-1-4027-8272-5

1. Retirement income--Planning. 2. Finance, Personal. 3. Portfolio management. I.

Title.

HG179.J3274 2011

332.024'014--dc22

2011010300

For information about custom editions, special sales, and premium and corporate purchases, please contact Sterling Special Sales at 800-805-5489 or specialsales@sterlingpublishing.com.

2 4 6 8 10 9 7 5 3 1

www.sterlingpublishing.com

To Joanna, the newest member of our family

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Special Offer for Readers of Managing Retirement Wealth

Foreword by Peter J. Hathaway

Speaking to you as an institutional portfolio manager working on domestic equity portfolios for the last thirty-five years, I can tell you that it is quite different developing and managing your own personal accounts using your own goals and objectives.

For me, it was a case of “the cobbler’s son has no shoes,” as I had neglected my own portfolio. What a great resource Julie’s book, *Managing Retirement Wealth*, has been in helping me organize and access my individual needs and objectives based on my risk parameters.

Many of us have a “random assortment of assets,” consisting of IRAs, CDs, savings accounts, 401(k)s, and other miscellaneous financial assets accumulated over a lifetime, that lacks an overall plan. This is not an easy task to solve, but Julie’s book provides the framework for you to organize and manage your personal portfolio now and in the future.

You will benefit from Julie’s knowledge and practical experience, which she has gained from helping others in the portfolio management process. It will help you choose wisely and avoid costly mistakes.

One of my favorite topics is her discussion of goals: “Investment objectives are goals. The big difference between having a collection of investments and having a portfolio is pursuing goals, actually making decisions that lead to the accomplishment of those goals, and keeping track of progress by monitoring your portfolio.”

As you begin the process of managing your portfolio, you will find this not to be an easy task, but well worth the time and effort you put into it. Julie’s book will prove to be an invaluable guide.

—Peter J. Hathaway (retired), former portfolio manager for GE Asset Management’s U.S. Equity Large Cap Value Strategy, responsible for portfolios with assets in excess of \$10 billion

Foreword by Jonathan Dahl

In the world of personal finance, these are surely historic times of unprecedented change. A generation of Americans could once count on enjoying an easy retirement, thanks to the generosity of their employers and a combination of the robust housing and stock markets. That has all changed, of course: only a third of mid- and large-size American firms offer pensions these days, and the country's real estate bust has wiped out \$3.3 trillion in market value in homes in five years.

Throw in the stock market crash of 2008, which battered people's 401(k) plans and sent many investors' carefully built portfolios essentially back to square one, and you have yourself a perfect storm for developments in personal finance.

But there is good news: help is on the way.

Investors today have more places to turn to for advice, including a growing number of books that deal with personal finance in a smarter way than before. The idea that a bookstore could fill a shelf with successful personal finance books would have been unthinkable a decade ago. Now, as Americans try to make sense of their future, these sorts of titles are coming out in great numbers, with advice and insights for all levels of investor.

In your hand is one such publication: Julie Jason's *Managing Retirement Wealth*.

It is a great way for anyone trying to pick up the basics—or go beyond them—as they build a strategy for a new economic climate. And in an age with so many economic uncertainties, Julie's book is as good a place as any to bone up on the bewildering but rewarding task of putting our futures in order.

—Jonathan Dahl, editor in chief of *SmartMoney*, the personal finance magazine
from *The Wall Street Journal*

Foreword by Charles Rotblut

Your net worth is highly dependent on how well you manage your portfolio. Your ability to make the right decisions and follow the correct strategies will determine whether you have enough money to retire and enough to last you throughout your lifetime.

Yet, as important as this concept is, most people tend to be reactive, instead of proactive, with their investing. Decisions are often made based on what the market is doing rather than with the long-term goals in mind. If this describes you, do not feel bad.

Most people have not been given a comprehensive guide on how to effectively manage their portfolios. Rather, investing is commonly thought about in terms of what stock, bond, mutual fund, or ETF should be bought. Significantly less attention is given to what mix of securities and funds should be held in one's portfolio. As result, many investors find that their knowledge of how to manage a portfolio is acquired through trial and error.

Complicating matters is the volatility of the stock market. Two bear markets occurred over the past ten years, causing havoc with most investors' portfolios. The result was a lost decade with many people still not recouping the wealth they lost.

Yet, some investors weathered the storm and actually increased their net worth. What was their secret to success? These successful investors effectively managed their portfolios using the time-tested rules that Julie Jason explains in this book.

They stayed focused on their long-term goals and kept their investment risk at levels they were comfortable with. This gave them the luxury of not having to be reactive to the market's volatility, while ensuring they have enough wealth to last them a lifetime.

If you have not placed an emphasis on how you manage your portfolio, now is the time to do it. Julie will show you how.

—Charles Rotblut, CFA, vice president,
American Association of Individual Investors
and author of *Better Good than Lucky*

Preface

Each day, we all make decisions in every aspect of our lives that require an understanding of the risks, rewards, consequences, and options before us. Our continued security, our independence, and the comfort of our loved ones could very well hinge on how we choose to make important financial decisions as we live our lives and pursue our goals.

This book is designed to educate, motivate, and pass on what I have learned as an investment adviser, author, and financial columnist over many years—not only as a student of the markets but also as the guardian of each client—the unique person at the center of each portfolio that I structure and manage.

As you read this book, I hope that it will help you recognize that the first and most important analysis you must make is to try to understand “who you are and what you need” so that you can design and manage a portfolio to achieve *your* goals. Security comes from knowing yourself, where you are going, and how to get there—and making sure you don’t get lost along the way.

Introduction

Teachers, social workers, business owners, lawyers, dentists, accountants, and corporate employees may not think of themselves as wealthy, yet [millions of these everyday Americans have substantial assets](#) that they have acquired through business ventures, personal savings, inheritances, and through their 401(k)s and other retirement plans at work.

Whether they are interested in the financial markets or not, at some point in their lives—possibly at or near retirement—these individuals come to question how they will provide for themselves after they stop working. They need to assure themselves that their investments can sufficiently supplement their Social Security retirement benefits and pensions for as long as they live, and possibly leave a legacy for their heirs. That’s quite a challenge, considering the uncertainties all investors face.

Because of the way people invest *before* they reach this point in their lives—buying mutual funds, stocks, and bonds on their own, through a broker or through a retirement plan at work—they may not be aware of the discipline I call “Personal Portfolio Management.”

Just what is a “portfolio”? Borrowing from Nobel Prize-winning economist and father of portfolio management Harry M. Markowitz, a portfolio is “more than a long list of good stocks and bonds ... [it is a] balanced whole [that can provide you] with protections and opportunities with respect to a wide range of contingencies.”

A “personal” portfolio is goal-oriented, meaning it focuses on your personal and unique situation and addresses the goals that you want to achieve.

What is “management?” It’s the process of planning, executing, and, most important, watching progress toward your goals so that inevitable missteps can be observed and corrected, with the ultimate goals of achieving desired results.

The difference between buying a few stocks and bonds here and there and managing a portfolio is the difference between throwing up a tent at a campground on a trip with some friends and building a house for your family. Both might provide shelter. One satisfies a temporary need; the other offers a structure that your family will call “home” for many years to come.

How to Read This Book

I wrote this book in eight parts, with the intention of taking you through some facts and figures to lay a foundation while sharing some insights from years of actually constructing and managing personal portfolios.

- Part 1: Building the Foundation for Managing Your Personal Portfolio
- Part 2: Demystifying Risk and Uncertainty
- Part 3: Creating Your Portfolio Objectives and Strategy
- Part 4: Structuring Your Portfolio for Income and Your Retirement
- Part 5: Investing for Three Different Goals
- Part 6: Utilizing Independent Research: Choosing Stocks
- Part 7: The Importance of Monitoring Your Portfolio

Part 8: Who Should Manage Your Portfolio?

You'll get the most out of this book by reading the parts in order. At the end of each chapter, I've summarized some key points and listed a few steps that you might want to take along the way.

You'll notice that there is quite a bit of market data in this book, including results of studies prepared for this book for illustration purposes, not as recommendations. If you wish to pursue a particular strategy or investment discussed in the book, be sure to verify the information yourself and review it with your adviser before taking any action.

In the back of the book, you'll find reference materials, including a comprehensive presentation on how to dig for information in financial statements, which is provided courtesy of AAI (the American Association of Individual Investors) (Appendices A through D).

AAI is a national nonprofit membership organization, with chapters in almost every state whose purpose is to educate the individual investor. AAI's website (www.AAI.com) provides educational and research materials that are both understandable and easily accessible. AAI kindly offered readers of this book a complimentary 12-month membership. To take advantage of this free offer, see the "[Special Offers](#)," section at the end of this book.

What This Book is Not

There are many investment books that offer get-rich-quick formulas and stock tips. If that is what you are seeking, you will not find it here. Instead, this book is for the thoughtful individual who wants to bring some discipline to his or her investment activity at an important transitional time of life. As such, it is a resource to both the novice who has substantial assets that need to be invested with care and the experienced investor who has a history of successfully investing for capital appreciation.

Most important, this book recognizes that investing retirement wealth calls for a very personal inward exploration, not only of goals, intentions, desires, strengths, concerns, and limitations, but also of the uncertainties that we all face in investing and in life.

It is my sincere wish that this book will give you some insights that you can apply in your decision making and as you plan for a secure financial life for yourself and your loved ones.

Do reach out to me if you have questions or comments. You can e-mail me at readers@juliejason.com. My best wishes to you and your family.

—Julie Jason

Building the Foundation for Managing Your Personal Portfolio

As individuals acquire assets, there comes a time when they need to bring some oversight, planning, and management into their investment activities. This process of overseeing your investments I call “Personal Portfolio Management” ([Chapter 1](#)), and the person who takes on that task I call a “personal portfolio manager.” Let’s agree that you are that person, at least for now. (We’ll explore alternatives in [Part 8](#) of the book.)

Managing your portfolio is also about having the confidence and knowledge to make sound decisions over a lifetime. In [Chapter 2](#) we’ll discuss decision making in the context of long-term investment goals. I’ll point out the pitfalls of striving for goals that may be unattainable, and I’ll present six factors involved in making quality investment decisions.

Having a general understanding of the market helps put the risks and rewards of investing into context. In [Chapters 3](#) and [4](#), I’ll share my perspectives, debunk some popular misconceptions about the market, and give you some insights based on market and investor returns. We’ll also examine market data from the first decade of 2000, a challenging period that academics and researchers will no doubt study for a long time to come. After reading these chapters, lessons might emerge to help you construct your own portfolio even in periods such as the “lost decade.”

CHAPTER 1

Personal Portfolio Management

What's in It for You?

This chapter introduces the concept of Personal Portfolio Management and how you might benefit from applying some of these principles to your own situation. It explains why some investors need to be extra vigilant (those who need to live off their investments), and it starts you on the course to organizing your own investments.

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Life Can Be Complicated

Some people have most of their assets in a single account, such as a 401(k). But, it is not uncommon for well-to-do individuals to have multiple accounts with a number of brokers, banks, and advisers. Take Michael and Mary, a hypothetical couple based on a composite of people I might meet when they are searching for a professional money

manager. Between them they have two 401(k) plans with former employers, a few IRA accounts held at brokerage firms a joint account with a popular online discount brokerage firm that Michael likes to use for “playing the market,” and multiple savings and checking accounts. In addition, they have a number of “managed accounts” sold to them by two high-end “wealth managers” with well-known brokerage firms, who make available all the resources of their firms for any financial need imaginable, including help with financing the purchase of a yacht.

Michael is the financial decision maker in the family. He discusses stock ideas with his wealth managers. When he has time, he reads research reports they send him. Occasionally, he does some online research on his own. Michael reviews brokerage statements to see if his accounts are up or down from the previous month. He places trades in his online accounts, files his transaction confirmations, and gathers year-end tax data for his accountant. And that pretty much summarizes Michael’s current routine, which has worked well for him until now.

The Big Picture

Even though Michael and Mary have wealth, they are uncertain about how to invest for the future, as is natural for people approaching retirement. After all, they have to address their changing circumstances and lay out an investment plan of action with a time horizon of thirty years or more.

Important questions arise. Will they be able to support the lifestyle they would like to have in retirement? How will their wealth be affected should there be a severe market decline after they retire? Ultimately, will assets and income be sufficient to last a lifetime?

What about their approach to investing? Do they need to change how they invest in any way or continue as usual? Do their accounts need to be consolidated? Do they need to change how they direct their financial service providers in order to accomplish a different set of goals? Do they need a different type of service altogether as they approach retirement?

Then, there are estate planning issues. Will they be able to leave a legacy for their heirs? How do their financial decisions impact their estate and charitable giving plans? Who can help them tee up and coordinate financial, tax, and legal decisions? And, importantly, what happens if Michael, as the family’s financial decision maker, becomes ill, incapacitated, or predeceases Mary?

Survey data tell us that people with substantial assets can be confused about financial decisions, especially after living through a market decline (something we can expect to occur again during our lifetimes). At such times, their biggest fears are losing wealth, outliving assets, having to modify current lifestyles, having to replenish retirement savings, and having to postpone retirement. Research tells us that affluent Baby Boomers who are five to ten years away from retirement are panicked at such times, with a large number being forced to delay retirement.

This book is for all the pre-retirees and retirees who might face some of these issues. It addresses the fact that, at some point in life, people come to the realization that they are not satisfied without a big-picture plan on how to manage their assorted holdings, accounts, and advisers. What they need is a way to bring structure and

organization to their investments through Personal Portfolio Management.

Personal Portfolio Management

I'm using the term "Personal Portfolio Management" to focus on (1) you and your family, the "personal" part of the equation, (2) your "portfolio," a collection of investments organized for a specific purpose, and (3) "management," the ongoing process of selecting, reviewing, and deselecting investments in order to achieve the portfolio's objectives.

This process, as we'll discuss together in the pages that follow, is applicable to all types of investors in all kinds of financial markets and economic cycles. The purpose of engaging in the process is to achieve what Harry M. Markowitz calls a "good portfolio." As he said in his classic book on portfolio management, *Portfolio Selection: Efficient Diversification of Investments*: "A good portfolio is more than a long list of good stocks and bonds. It is a balanced whole, providing the investor with protections and opportunities with respect to a wide range of contingencies." We will visit with Markowitz again in later chapters. The ultimate goal of *Personal Portfolio Management* is to improve returns and lessen risk.

Organization

Applying Personal Portfolio Management principles will bring some organization to your collection of investments, brokerage accounts, and financial advisers. It is not uncommon to have such a collection. Indeed, in addition to the usual investments, you may also own some variable annuities, limited partnerships, structured products, hedge funds, or private equity investments. Plus you may have an online trading account with a discount broker that you direct for fun. And, let's not forget your employee benefit plans, such as employee stock option plans, pensions, and even non-qualified employee plans.

Changing Needs

While everyone needs a plan, the need for one heightens at transitional points in life, such as getting married, starting a family, changing jobs, losing a spouse to death or divorce, facing an illness, or moving into retirement. Each such transition is a time of dislocation until a suitable path is discovered and followed. The search for the best way to proceed is necessarily a personal one, because one person's financial circumstances differ from just about every other's.

In retirement, for example, your personal cash flow will need to be addressed: how much money comes into the household (your income) compared to how much money goes out (your expenses). If the amount of your pension and Social Security combined cover your expenses, your portfolio needs will differ dramatically from someone who must rely on his investments to cover his expenses. (For help with cash-flow management, let me refer you to my book, *The AARP Retirement Survival Guide: How to Make Smart Financial Decisions in Good Times and Bad* [Sterling 2009], which you can find at your local library or bookstore or online at juliejason.com.)