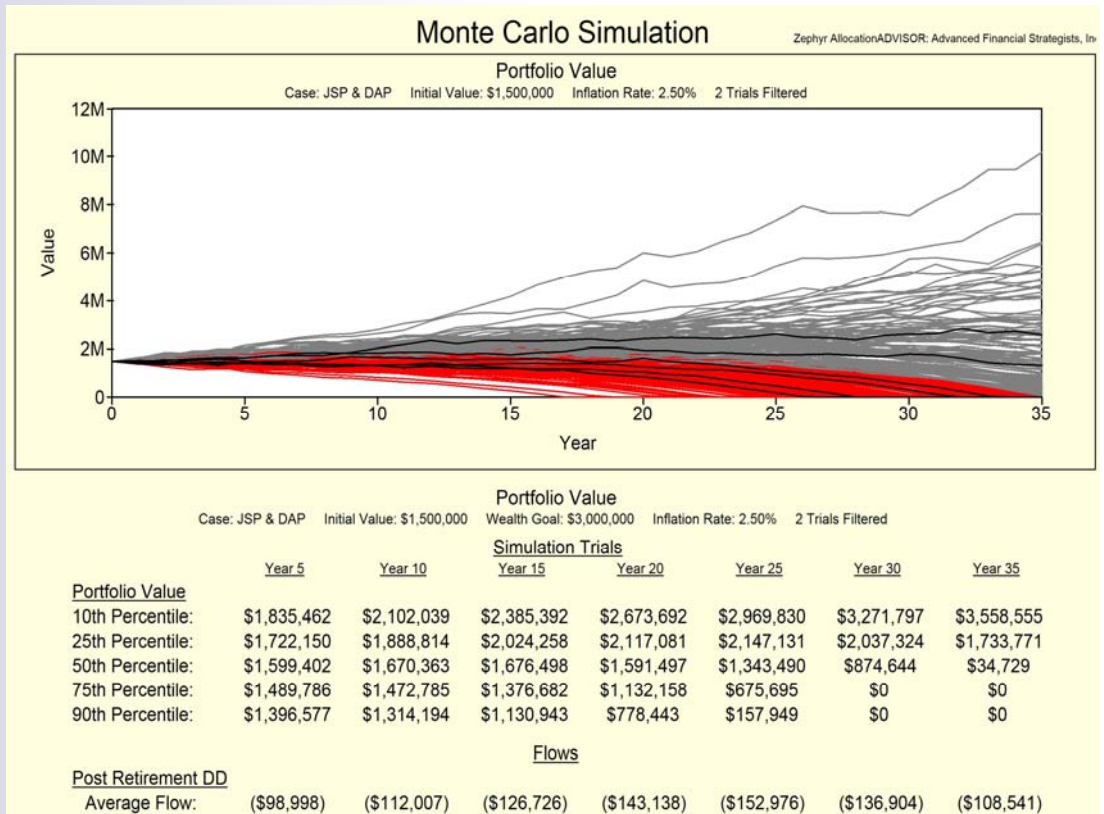


“Monte Carlo – Can You Gamble Your Nest Egg?”

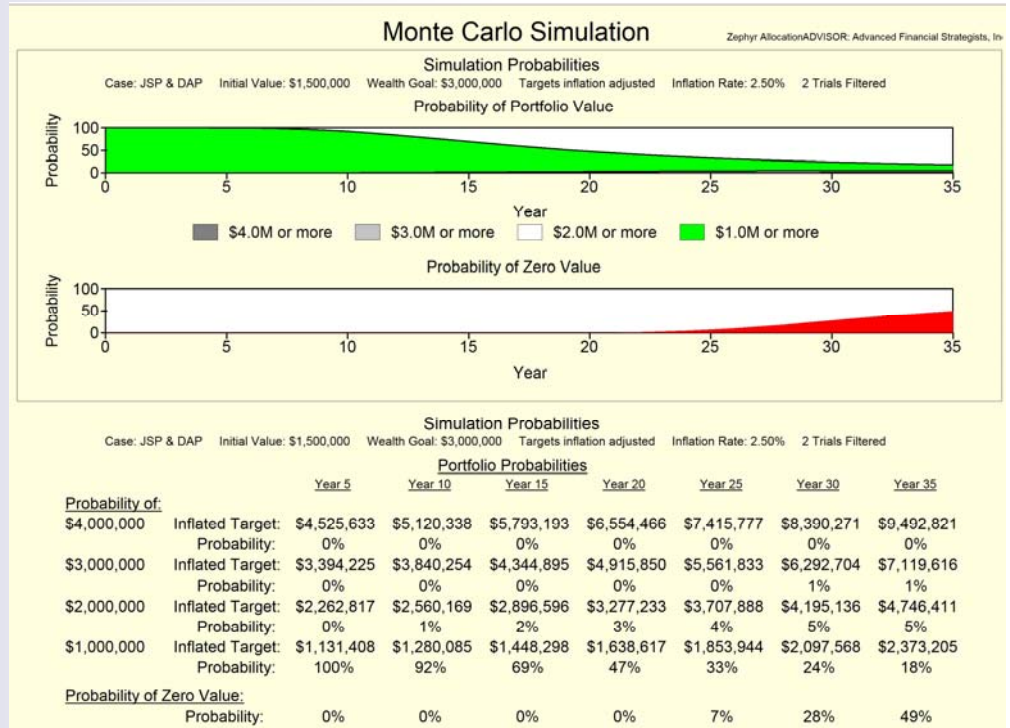
One of the most daunting questions we ask ourselves as we approach retirement is, “will I have enough money to last through my retirement”? You might also ask yourself, “is it likely that I will outlive my nest egg”? Traditionally advisors would project income streams out 20 or 30 years for their clients using a fixed rate of return and inflation to illustrate retirement scenarios. For example, if you need \$87,500 in year one of retirement that amount will grow to \$109,395 in year 15 and \$121,624 in year 25 using an inflation rate of 1.5%. If you start retirement with a nest egg of \$1,500,000 you can extrapolate when, or if, you would run out of money. A 7% projected rate of return without inflation might leave you with approximately \$3,500,000 at age 100. With inflation of 1.5% you would probably still have your original \$1,500,000 at age 100.

However, there is a serious flaw in this methodology. This traditional method of retirement income projection assumes a fixed rate of return of 7%. Professional financial advisors know that a well balanced portfolio of stocks, bonds and cash can be structured to provide a comfortable retirement for clients, but not without a few caveats. Most important of which is variability of returns. Your portfolio may return 7% one year, 12% the next, 3% the following year and perhaps -4% the next year and so on. These return variations are what make retirement income projecting so challenging. Even if you decide to be ultra conservative and only use CD's you can't effectively predict fixed income streams because CD rates change yearly. As for annuities, they may not be the answer because most fixed income streams from these products typically do not adjust for inflation.



MONTE CARLO SIMULATION

Today financial advisors address the problem of uncertainty in projecting variability of returns with sophisticated software using Monte Carlo simulation. Monte Carlo simulation simply means looking at thousands, if not tens of thousands, of differing variations of returns year in and year out. For example; let's assume you have, or project to have, \$1,500,000 upon retirement (age 65), require \$87,500 of income and have a moderate portfolio of 50% bonds and 50% stocks with an annual expected return of 8%. Assuming a 1.5% rate of inflation there is only a 12% chance you will be out of money at age 100. If you assume a 2.5% rate of inflation the probability of going broke soars to 50%.



Monte Carlo simulation can help you determine the level of financial independence you desire during your golden years. If you want greater certainty of not running out of money you can adjust the investment mix, number of years in retirement and assumed inflation to achieve the desired result. Or, if you are comfortable with a 90% degree of certainty you can adjust the variables to achieve your target comfort level. Gifting to heirs or charities can also be included in the assumptions with the goal of limiting the impact of Federal estate taxes (Georgia has no estate tax). It is important that you work with your financial advisor to work out various scenarios that fit your individual needs.

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