



# Getting a Handle on R-I-S-K

## LIFETIME INCOME CASE STUDY

*Presented by Financial Sense Advisors, Inc.*  
Registered Investment Advisor

Ben & Barbara McDowell

# Important Notice:

*This is a hypothetical illustration based on real life examples. Names and circumstances have been changed. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments or strategies may be appropriate for you, consult with a financial advisor prior to investing.*

# ESSENTIAL INFORMATION

|                              |                                   |
|------------------------------|-----------------------------------|
| <b>Client:</b>               | Ben & Barbara McDowell.           |
| <b>Ages:</b>                 | Both age 63.                      |
| <b>Retirement:</b>           | Both hope to retire in 1-2 years. |
| <b>Life expectancy:</b>      | Ben age 90 and Barbara age 93.    |
| <b>Risk tolerance:</b>       | Moderate.                         |
| <b>Investment objective:</b> | Income with Capital Preservation. |



## WHO ARE BEN & BARBARA

**Name: Ben**

**Age: 63**

**Job: Regional Sales Manager**

Ben has been with the same company for about 20 years and travels 1-2 weeks a month for business. The pay is excellent but he feels like he wants to begin a new chapter in his life. He has been contributing to his company's stock purchase plan for years and has accumulated a large concentrated position in his employer's stock. He has always invested heavily in precious metals since that is how his father taught him to invest. He is concerned about how much he has invested now that he is considering retirement.

**Name: Barbara**

**Age: 63**

**Job: Homemaker**

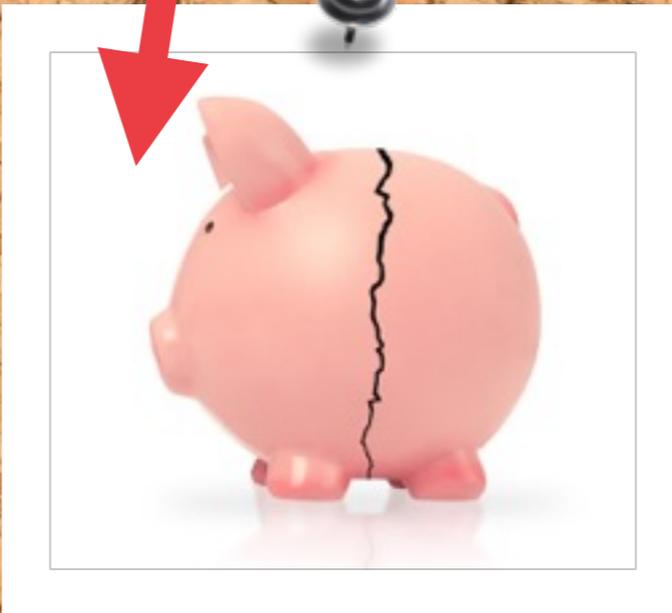
Barbara is anxious and excited at the prospect of her husband retiring. She currently enjoys babysitting her grandkids a couple days a week but looks forward to getting more time with her husband, especially considering the amount of travel he does. She is concerned about the costs of retirement given her husband's family health history and her expected longevity. She hopes they can maintain their current lifestyle as long as possible because she values their independence. Barbara is a more conservative investor than her husband and is concerned about experiencing another large loss in their portfolio.

# WHAT IS IMPORTANT TO BEN & BARBARA?



**Reducing risk in the portfolio**

**Not outliving assets**



**Having reliable income in retirement**



**Managing medical costs**



# BEN & BARBARA'S CURRENT BUDGET

|                  |          |
|------------------|----------|
| ✓ Essentials:    | \$95,000 |
| ✓ Discretionary: | \$31,000 |

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TOTAL: \$126,000

|               |           |
|---------------|-----------|
| Ben's Salary: | \$165,000 |
|---------------|-----------|

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|          |          |
|----------|----------|
| Surplus: | \$39,000 |
|----------|----------|



# BEN & BARBARA'S RETIREMENT BUDGET

|                  |                  |
|------------------|------------------|
| ✓ Essentials:    | \$78,000         |
| ✓ Discretionary: | \$22,000         |
|                  | <hr/>            |
|                  | TOTAL: \$100,000 |
| Social Security: | \$42,000         |
| Ben's Pension:   | \$29,000         |
|                  | <hr/>            |
| Shortfall:       | -\$29,000        |



# BEN & BARBARA'S ASSETS

## Non-Investment Assets

|   |                    |           |
|---|--------------------|-----------|
| ✓ | Primary Residence: | \$330,000 |
| ✓ | Rental Property:   | \$175,000 |

## Investment Assets

|   |                       |           |
|---|-----------------------|-----------|
| ✓ | Ben's Retirement:     | \$850,000 |
| ✓ | Barbara's Retirement: | \$90,000  |
| ✓ | Employer stock:       | \$244,000 |
| ✓ | Business Interests:   | \$96,000  |

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|                                |             |
|--------------------------------|-------------|
| <b>Total Investment Assets</b> | \$1,280,000 |
|--------------------------------|-------------|

|               |             |
|---------------|-------------|
| Total Assets: | \$1,785,000 |
|---------------|-------------|

|              |           |
|--------------|-----------|
| Liabilities: | -\$80,000 |
|--------------|-----------|

|            |             |
|------------|-------------|
| Net Worth: | \$1,705,000 |
|------------|-------------|

# BEN & BARBARA'S FINANCIAL PLAN CHALLENGES

1. Reducing portfolio risks.
2. Having predictable income in retirement.
3. Not outliving assets.
4. Managing medical costs.



# BEN & BARBARA'S RETIREMENT INCOME STRATEGY

|                          |          |
|--------------------------|----------|
| Combined Social Security | \$33,000 |
| Ben's Pension            | \$38,000 |

## Investment Income

|                   |        |  |                  |
|-------------------|--------|--|------------------|
| Ben's Retire.     | \$850K | Fixed Income & Dividend Payers @ 3.2% <sup>1</sup> | \$27,200         |
| Barbara's Retire. | \$90K  | Fixed Income & Dividend Payers @ 3.2% <sup>2</sup> | \$2,880          |
| Employer Stock    | \$244K | Fixed Income & Dividend Payers @ 3.2% <sup>3</sup> | \$7,808          |
| Business Int.     | \$96K  |  |                  |
|                   |        | <b>Total Investment Income</b>                     | <b>\$37,888</b>  |
|                   |        | <b>Grand Total Income</b>                          | <b>\$107,888</b> |
|                   |        | Less Budget  | \$100,000        |
|                   |        | <b>Surplus</b>                                     | <b>\$7,888</b>   |

1,2 & 3: Yields are for current portfolio yields as of 1/31/18. Please see disclosures at the end of this presentation for security risks.

# BEN & BARBARA'S RETIREMENT INCOME STRATEGY

*Risk Tolerance  
Score*

54



*Current Portfolio  
Risk-Score*

76



*Proposed Risk-  
Score*

42



# GOAL BASED RECOMMENDATIONS FOR BEN & BARBARA

## Goal

## Strategy

### Reducing risk in their portfolio

Based on our tools, Ben and Barbara had a risk tolerance score of 54, but they had a much riskier portfolio with a score of 76. By reducing their high allocation of precious metals and other concentrated positions, we were able to reduce their risk-score down to 42.

### Creating predictable income in retirement

We recommended that Ben and Barbara invest primarily in dividend-paying stocks and bonds. We also advised them to take social security at full retirement age to produce higher income.

### Not outliving assets

In order to maximize retirement income, we had them delay retirement until age 66 since this is the husband's full retirement age for social security. This was effective because it increases how much Barbara receives as a widow when Ben passes away. By waiting until age 66, it has also increased Ben's pension amount to which we recommended he choose the 75% survivor benefit.

### Minimizing sequence of returns risk

By lowering the risk of the portfolio and delaying retirement, we were able to reduce the potential negative impact of low returns at the beginning of retirement.

# Disclosures:

- 1. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*
- 2. The payment of dividend is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time.*
- 3. Fixed annuities are long-term investment vehicles for retirement purposes. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Guarantees are based on the claims paying ability of the issuing company. Withdrawals made prior to age 59 1/2 are subject to a 10% IRS penalty tax and surrender charges may apply.*

# Financial Sense® Advisors, Inc.

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If you have any specific questions or comments, please give us a call at

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*We're happy to speak with you.*

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