FREE REPORT

Why Retirement May No Longer Be An Option

Revealed:
The Harsh Reality Fund Managers Do Not Want You To Know

by: **Jim Berg** & **John Atkinson**

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The following article is an extract from Jim and John's weekly *'Investing & Online Trading'* mentoring-style Report at ShareTradingEducation.com.

1. Baby Boomers Nervous

Today, with recent advances in medical technology, your retirement could very well be a full one-third of your life, i.e. 30+ years.

Until the Global Financial Crisis, many baby boomers had been planning to retire soon. They were preparing for what they had hoped would be the best time of their lives, with time and money to enjoy what they like doing best.

However, an article in USA Today said *" Baby boomers are starting to retire, but many are agonizing about their finances and believe they'll need to work longer than they had planned, a new poll finds.*

The 77 million-strong generation born 1946 through 1964 has clung tenaciously to its youth. Now, boomers are getting nervous about retirement. Only 11% say they are strongly convinced they will be able to live in comfort.

Fifty-five % said they were either somewhat or very certain they could retire with financial security. But another 44% express little or no faith they'll have enough money.

Underscoring the financial squeeze, 1 in 4 boomers still working say they'll never retire. That's about the same number as those who say they have no retirement savings."

In this article we look in-depth at why retirement is no longer an option for many baby boomers and compare financially the outcomes of living *'in hope'* vs. using Jim's common sense investing approach.

2) *"Your Money's Better off in Your Pocket"*

Here in Australia, on 16 November 2011, Peter Martin wrote in the Sydney Morning Herald:
" …. Whatever happens in Europe, we can take comfort knowing that our money is being handled by experts who know what they're doing. They do, don't they, because it's about to become even more important.

Wilful blindness by the government and spinelessness by the opposition have ensured the amount of super we are forced to hand over to money managers will climb from 9 per cent to 12 per cent of our salaries by the end of the decade (unless we run our own funds, something that wouldn't happen on a large scale and would be unmanageable if it did).

Many of us will have to take out bigger mortgages and hold them for longer than we otherwise would have in order to feed the money-management machine; we won't have the income we would have had to pay mortgages off……

……. Which pushes us into the hands of fund managers, who might just be worth their fees if they could get us a better return than we could get by paying off our homes; the latest SuperRatings table shows they can't.

For the past five years, the median balanced fund has returned an average of just 0.92 per cent a year. Over the past 10 years the return has averaged 5.16 per cent.

Since compulsory super began back in 1992, the return has averaged 6 per cent. None match the return from paying off a mortgage……..”

…… Study after study over 50 years has failed to find any significant year-to-year correlation in the performance of US fund managers. Some do well for a while, some do badly, but no more so than would be expected by chance. In Kahneman's words: "For a large majority of fund managers, the selection of stocks is more like rolling dice than like playing poker."

Fund managers don't see themselves that way. Like most of us, they think they're better than average. "The subjective experience of traders is that they are making sensible educated guesses in a situation of great uncertainty," Kahneman says.

But if their guesses turn out to be no better than blind guesses over time, I don't feel particularly good about entrusting my financial future to them, nor do I feel good about handing over more money…”

3) Crashes, Mini Crashes and Bear Markets: 24 Years to 2011

In March 2011 Jim issued a caution article and in July 2011 he closed our Report Portfolio to protect notional trading capital.

Previously, in January 2008, Jim also closed the Portfolio, ahead of what became the Global Financial Crisis. The Portfolio stayed closed for 1.5 years until June 2009. Those Members who followed Jim's lead in 2008 and 2011 did not lose millions of dollars between them

In Edition 130 in December 2007, prior to his 2008 closure of the portfolio, Jim provided his research of large falls in the previous 20 years and concluded with a warning:

“If the All Ords and S&P500 both have a weekly close below a falling moving average we must prepare for the possibility of a bear market. This bearish All Ords – S&P combination would be the fifth time this has occurred in the last twenty years. The four previous occasions resulted in bear markets with falls of greater than 20%. The shortest duration was 10 months.”

As part of his research Jim also wrote in Edition 130:

3.1 Crash: “For the purposes of this article, I will define a crash as a fall in price of **greater than 20%**, peak to trough, and lasting **less than 3 months**.

Using this definition, there have been two market crashes in the last twenty years, based on the **All Ordinaries Index (XAO).**

CRASH	START	PRICE	END	PRICE	% CHG.	TIME	RALLY	END	% CHG.	TIME
	25/09/1987	2306	13/11/1987	1151	-50.1%	9 WKS.	X	12/08/1988	44.0%	9 MTHS.
	26/09/1997	2797	31/10/1997	2209	-21.0%	5 WKS.	X	17/04/1998	31.0%	6 MTHS.

3.2 Mini Crash:

For the purposes of this article, I will define a mini-crash as a fall in price of **10% - 20%**, peak to trough, and lasting **less than 3 months**.

Based on this definition, there have been six mini-crashes* in the last twenty years, lasting between five and ten weeks.

Five of the six mini-crashes were followed by rallies of between 16% and 36.9%.

MINI...	START	PRICE	END	PRICE	% CHG.	TIME	RALLY	END	% CHG.	TIME
	3/05/1996	2336	19/07/1996	2091	-10.5%	10 WKS.	X	21/02/1997	19.9%	7 MTHS.
	17/04/1998	2893	19/06/1998	2510	-13.2%	10 WKS.				
	24/03/2000	3276	20/04/2000	2883	-12.0%	5 WKS.	X	25/08/2000	16.0%	4 MTHS.
	29/06/2001	3425	28/09/2001	2827	-17.5%	10 WKS.	X	15/02/2002	21.8%	5 MTHS.
	12/05/2006	5352	16/06/2006	4726	-11.7%	6 WKS.	X	13/07/2007	36.9%	13 MTHS.
	13/07/2007	6469	17/08/2007	5490	-15.1%	6 WKS.	X	2/11/2007	25.2%	3 MTHS.

The 1998 mini-crash experienced a short rally and then a further fall, taking the total decline to 17.6%. The 32.3% rally from this level took eight months.

(Jim's Update as at 13 January 2012): The latest mini-crash occurred in April-May 2010. It lasted 5 weeks, fell 16.9% and took eleven months to recover the loss

3.3 Bear Markets

Bear markets are periods of declining stock market prices that are measured in months or years. For the purposes of this article, I will define a bear market as a fall in price of greater than 20%, peak to trough, and lasting **longer than 3 months.**

The Australian stock market, as measured by the All Ordinaries Index, has experienced four corrections* (Bear Markets) over the last 20 years that were greater than 20% and lasted longer than 3 months, peak to trough.

BEARS	START	PRICE	END	PRICE	% CHG.	TIME
	8/09/1989	1786	18/01/1991	1198	-32.9%	16 MTHS.
	15/11/1991	1697	20/11/1992	1355	-20.2%	12 MTHS.
	4/02/1994	2350	25/11/1994	1814	-22.8%	10 MTHS.
	15/02/2002	3443	14/03/2003	2666	-22.6%	13 MTHS.

Bear markets fall further and last longer.

(Jim's Bear Market Update as at 13 January 2012):

The All Ords (XAO) chart below shows the fall from the peak in November 2007 to the trough in March 2009 was **-55.5%.**

We are currently experiencing the latest Bear Market. This peak to trough was **-24.5%**, over seventeen weeks.

The weekly close is only 11.1% off the August 2011 low.

It is over nine months since the April 2011 peak and over 4 years since the 2007 peak.

4) The Cruelty of the Market

Since we first published our [mentoring-style Report] in 2005, we have regularly drawn attention to the fact that a 20% drop in stock prices or portfolio value cannot be recovered by a rally of 20%.

In fact a rebound of **25%** is needed just to get back to where you started.

The cruelty of the market is such that the amount needed to regain increases with the size of the fall. For instance, Table 1 below shows a fall of 50% needs a rebound of **100%**.

Table 1: Percentages to Recover

% Capital Loss	% Increase necessary to recover
10	11.1%
20	25.0%
30	42.9%
40	66.7%
50	**100.0%**
60	150.0%
70	233.3%
80	400.0%
90	900.0%

Increase the fall by just another 10% to a total of 60% and this means a recovery of 150% is needed!

How long would that take?

Let's now compare the difference in portfolio results over time between a *'Buy and Hold'* fund manager and using Jim's approach of switching to cash during Bear Markets.

5) Fund Manager '*Buy and Hold'*

While history is no guarantee of future performance, we can still learn by looking at what's happened in recent decades, as shown last week. In particular we can see that while there have been many Bull markets and rallies since 1987, there have also been several periods of crashes, mini crashes and bear markets.

Let's now compare 2 main investing scenarios of:

1. '*Buy and hold'* (as recommended by most fund managers), versus

2. Jim's method of switching to *'cash'* when individual stops are triggered and when an overall market exit signal is generated.

Many fund managers are unable to adopt scenario 2 as their fund conditions may not allow them to go to cash.

Even worse, many fund managers are required to ensure that the portfolio weightings remain *'balanced'* e.g. X% in banks and Y% in resources. This means that if banks stocks fall in price and resources increase, the fund becomes '*underweight'* in banks and '*overweight'* in resources – so the managers end up selling some of their profitable resources and buying more banks (which are falling) in exchange to '*balance*' their portfolios! (This is absolutely the opposite of what Jim teaches.)

As a result, it's hardly a surprise that in Part 1 last week we quoted Peter Martin of the SMH who said; "….*For the past five years, the median balanced fund has returned an average of just 0.92 per cent a year. Over the past 10 years the return has averaged 5.16 per cent….. "*

Let's now make some assumptions and calculate the possible outcomes over the next few years.

First, a disclaimer: The following are simply broad brush assumptions we have chosen and are not intended as predictions. We leave it to the reader to use the calculations as a basis and invite you to vary the figures to test alternate outcomes.

Let's assume that each 4 years, there will be a

i) Bull Market, lasting 2.5 years

ii) Bear Market followed by a flat (i.e. sideways/consolidating) market, lasting 1.5 years

Furthermore, let's assume fund managers can make:

- 15% pa (after tax) in good times and
- In bad times in the future they may lose 35% (based on indices which commonly fell 20% since 1987 and over 50% in 2007-1011)

Let's start with a hypothetical fund manager '*Buy and Hold* ' who is 'managing' a baby boomer's \$100k portfolio. Initially, we will look at the first 4 years, then extend to a 6.5 year investment period.

In the first instance, let's assume he has a lucky break with a Bull Market for the first 2.5 years, then a Bear and flat market for the next 1.5 years:

Table 2: 4 Years - Bull Market First

Year	Portfolio Value	Comments
0	$100.0k	
1	$115.0k	**Bull:** +15% pa
2	$132.3k	**Bull:** +15% pa
2.5	$142.2k	**Bull:** +15% pa for ½ yr
4	$92.4k	**Bear:** -35% in 1.5 years

Table 2 shows that the portfolio increased to $132.3k in the first 2.5 years, but by continuing to hold when markets tumble; by the end of 4 years, fund manager '*Buy and Hold*'s portfolio would be at $92.4k i.e. down 7.6% overall from the start.

Fortunately, if the cycle resumes, the next Bull Market would be due, so let's take it to the next step by looking at the next 2.5 years

Table 3: 6.5 Years, Bull Market First

Year	Portfolio Value	Comments
0	$100.0k	
1	$115.0k	**Bull:** +15% pa
2	$132.3k	**Bull:** +15% pa
2.5	$142.2k	**Bull:** +15% pa for ½ yr
4	$92.4k	**Bear:** -35% in 1.5 years
5	$106.3k	**Bull:** +15% pa
6	$122.2k	**Bull:** +15% pa
6.5	$131.4	**Bull:** +15% pa for ½ yr

Table 3 shows that if there are 2 Bull Markets over the 6.5 years, starting with the first from year 0, then after 6.5 years fund manager '*Buy and Hold's* portfolio would be at $131.4k (*but ready for the next tumble*). This equates to 31.4% net over 6.5 years, or an average of 4.8% pa overall.

This is in line with Peter Martin's article above in which, the median balanced fund "*Over the past 10 years the return has averaged 5.16 per cent…'*

Now let's turn the situation around and assume that he initially has an unlucky break with a bear and flat market for the first 1.5 years, followed by a 2.5 year Bull market and that this fund manager again stays invested for the full 4 years.

Table 4: 4 Years, Bear Market First:

Year	Portfolio Value	Comments
0	$100.0k	
1.5	$65.0k	**Bear:** -35% in 1.5 years
2.5	$74.8k	**Bull:** +15% pa
3.5	$86.0k	**Bull:** +15% pa
4	$92.4k	**Bull:** +15% pa for ½ yr

Table 4 shows that having lost 35% in the first 1.5 years; by the end of 4 years, fund manager '*Buy and Hold*' s portfolio would have climbed back from a Low of $65k, but it would still be at only $92.4k i.e. down 7.6% overall again from his starting figure!

Also, remember that if the cycle continues, this figure is due to tumble yet again over the next 1.5 years as the next Bear Market would be looming………

Table 5: 6.5 Years, Bear Market First:

Year	Portfolio Value	Comments
0	$100.0k	
1.5	$65.0k	**Bear:** -35% in 1.5 years
2.5	$74.8k	**Bull:** +15% pa
3.5	$86.0k	**Bull:** +15% pa
4	$92.4k	**Bull:** +15% pa for ½ yr
5.5	$60.0k	**Bear:** -35% in 1.5 years
6.5	$69.1k	**Bull:** +15% pa

Table 5 show that the equivalent comparative portfolio value after 6.5 years would be **$69.1k**. This baby boomer's retirement plans would definitely on the back burner by now.

6) Jim Berg Switches to Cash

We believe that '*Time in the Market is more important than timing'* is an absolute Myth, propagated by so called 'experts' who do ***not*** know how to time the market.

Jim has been successfully trading for over 30 years, 18 years of which were as a professional broker.

After closing his own and our Report's portfolios in January 2008 and July 2011, Jim switched to *'cash'* to protect his trading capital from the risk of savage falls in the ensuing Bear Markets.

Currently, cash at call can earn about 6%. Meanwhile, Jim currently waits for the market to give an overall market re-entry signal

Let's now revisit the above scenarios, only this time we will compare the power of using Jim's '*switch to cash'* strategy with our hypothetical fund manager's '*buy and hold'* approach.

We will use the same market timing assumptions and even though we would expect to achieve more than 15% using Jim's '*Weight of Evidence'* and JB Volatility Indicators during the Bull Markets; for consistency we will use the same growth figures as above.

Table 6: Jim Berg's '*Cash Up'* Approach - 6.5 years, Bull Market First

Year	Portfolio Value	Comments
0	$100.0k	
1	$115.0k	**Bull:** +15% pa
2	$132.3k	**Bull:** +15% pa
2.5	$142.2k	**Bull:** +15% pa for ½ yr
4	$150.8k	**Bear: -Stay in cash** for 1.5 years; assume 4.0% pa interest after tax
5	$173.5k	**Bull:** +15% pa
6	$199.5k	**Bull:** +15% pa
6.5	$214.5k	**Bull:** +15% pa for ½ yr

Table 6 above shows that by staying in cash and earning nominal interest during the Bear Market, trading capital would be protected and the $100k portfolio would be worth $150.8k after 4 years and **$214.5k** after 6.5 years.

This compares with only **$131.4k** in the corresponding fund manager *'Buy and Hold'*s portfolio in Table 3.

Table 7: Jim Berg's '*Cash Up*' Approach - 6.5 years, Bear Market First

Year	Portfolio Value	Comments
0	$100.0k	
1.5	$106.1k	**Bear: Stay in cash** for 1.5 years; assume 4.0% pa interest after tax
2.5	$121.2k	**Bull:** +15% pa
3.5	$140.3k	**Bull:** +15% pa
4	$150.8k	**Bull:** +15% pa for ½ yr
5.5	$160.0k	**Bear: - Stay in cash** for 1.5 years; assume 4.0% pa interest after tax
6.5	$184.0k	**Bull:** +15% pa

Table 7 shows that even if 2 Bear Markets occur during the 6.5 year period, then again by staying in cash for a total of 3 years during those Bear Markets, the portfolio at the end of 6.5 years would be **$184k**

This compares with only **$69.1k** in the corresponding fund manager '*Buy and Hold*'s portfolio in Table 5.

7) Why Retirement May Not Be An Option

In February 2011 the Wall Street Journal wrote '*Retiring Boomers Find 410k Plans Fall Short'*

The 401(k) generation is beginning to retire, and it isn't a pretty sight. The retirement savings plans that many baby boomers thought would see them through old age are falling short in many cases….

…. Some people were done in by the twin collapses of the housing and stock markets. Patti and Bob Webster had accumulated a six-figure balance in their 401(k) accounts and were building a dream house in North Carolina in 2007.

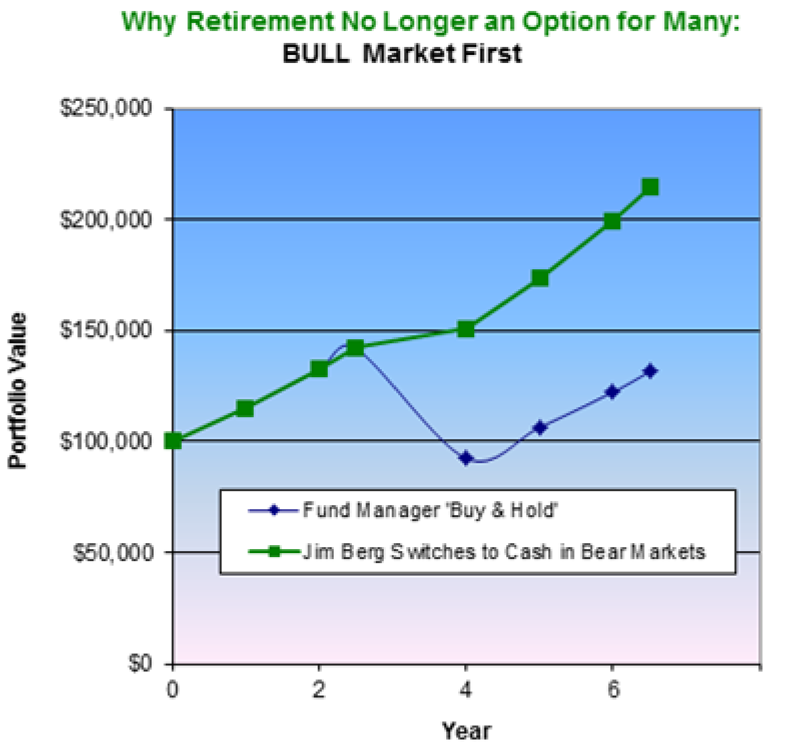
They planned to retire there in about a year. Then their builder went out of business and the stock collapse knocked 40% off their savings. They temporarily suspended 401(k) contributions. "We thought we had the perfect plan," says Patti Webster. "When the bottom fell out of the market, it kind of fell out of our perfect plan as well."

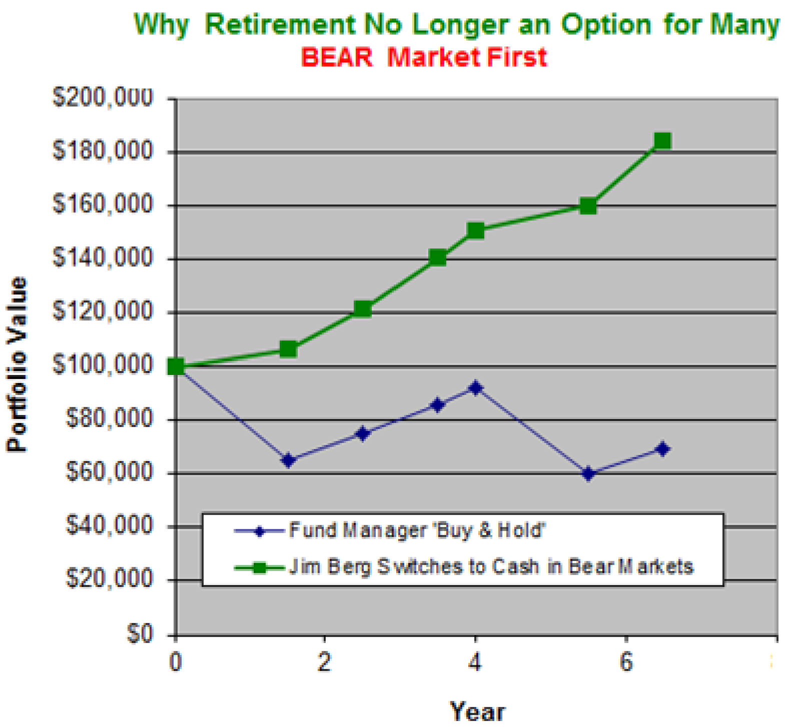
Today in their mid-60s, they have completed the house but have worked two years longer than planned and expect to work two years more. "We are having to spend another two years in just trying to catch up with what the market did to us," Ms. Webster says…."

Many baby boomer couples and individuals across the world can relate to the Webster's story as they may have insufficient savings and/or have trusted their '*nest eggs*' with fund managers, most of whom have held on to their stocks when the market fell in recent Bear Markets.

As a result, many are now faced with the harsh reality that they will have to keep working even longer than Patti and Bob Webster, with retirement no longer an option.

The next two Figures summarise the scenarios detailed in 5 and 6 above for our hypothetical fund manager '*Buy and Hold'*, compared with Jim's approach of switching to cash in Bear Markets:





It is not possible to pick the absolute tops and bottoms of markets. However, it is possible to determine overall market exit and re-entry signals after those tops and bottoms, as shown by Jim in our mentoring-style Report.

These two Figures graphically demonstrate the vital importance of using timing and money management in the market to effectively grow wealth.

Very importantly, remember that these charts have exactly the same assumed starting portfolio values and exactly the same growth percentages during Bull Markets.

The only variable that was changed was Jim's capital protection approach of switching to cash in Bear Markets, rather than the fund manager's '*Buy and Hold for the long term*'. These graphs show the extremely different results *in just 6.5 years* of changing just that one variable.

Extrapolate this time frame out to 10, 20 years or more and/or increase the starting value of the portfolio and you can imagine how much wider the final results will be and who would be able to retire first.

As we said above, the assumptions of durations and percentages shown here comprise just one set of broadbrush criteria. We leave it to you to vary them and to recalculate the outcomes for other scenarios.

Your financial independence is at the heart of everything we teach.

*"The question isn't at what age I want to retire, it's at what income." (*George Foreman)

This article is an extract from Jim Berg and John Atkinson's weekly '*Investing & Online Trading'* Report.

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