The 15-Minute Retirement Plan

How to Avoid Running Out of Money When You Need It Most

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One of the biggest risks an investor faces is running out of money in retirement.

This can be a personal tragedy. People may work their whole lives to accumulate enough wealth for a comfortable retirement only to find they've come up short. To help minimize this risk, Fisher Investments recommends keeping the following key questions in mind when planning your retirement:

1. How Long Will Your Portfolio Need to Provide for You?

2. How Can Cash Distributions and Inflation Impact Your Portfolio?

3. How Do You Establish a Primary Investment Objective?

4. What Are Important Trade-Offs You May Need to Make?

1. How Long Will Your Portfolio Need to Provide for You?

The table below shows total life expectancies for Americans, based on current age. We believe these projections likely underestimate how long people will actually live given ongoing medical advancements. And don't forget these are projections of average life expectancy—planning for the average is not sufficient since about half of people in each bracket are expected to live even longer. Factors such as current health and heredity can also cause individual life expectancies to vary widely.

The bottom line? Your time horizon may be much longer than you realize. Prepare to live a long time and make sure you have enough money to maintain your lifestyle.

Average Life Expectancy*

Current Age	Life Expectancy	Current Age	Life Expectancy	Current Age	Life Expectancy	Current Age	Life Expectancy
51	81	61	83	71	85	81	89
52	81	62	83	72	86	82	90
53	81	63	83	73	86	83	90
54	82	64	83	74	86	84	91
55	82	65	84	75	87	85	92
56	82	66	84	76	87	86	92
57	82	67	84	77	88	87	93
58	82	68	84	78	88	88	93
59	82	69	85	79	88	89	94
60	83	70	85	80	89	90	95

**Source: 2007 US Total Population Life Table (revised as of 06/28/2010), National Vital Statistics Reports, Volume 58, Number 21. Life expectancy rounded to nearest year.*

2. How Can Cash Distributions and Inflation Impact Your Portfolio?

As you anticipate your investment time horizon, it's also critical to understand how withdrawals will impact your portfolio. Like many investors, you may have unrealistic expectations of how much money you'll be able to safely withdraw each year during retirement.

A common—but incorrect—assumption is that since US equities have historically delivered about 10% annualized average return over the long term,* it must be safe to withdraw 10% a year without drawing down the principal.

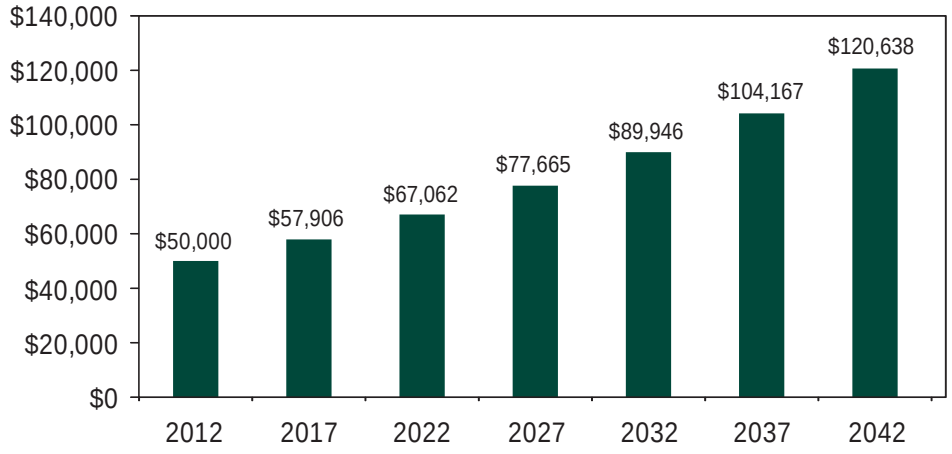
Nothing could be further from the truth. Though US markets may annualize about 10% over time, returns vary greatly from year to year. Miscalculating withdrawals during market downturns can substantially decrease the probability of maintaining your principal. For example, if your portfolio is down 20% and you take a 10% distribution, you will need about a 39% gain just to get back to the initial value.

Another important portfolio factor to consider is inflation. Inflation is insidious. It decreases purchasing power over time and erodes real savings and investment returns. Many investors fail to realize how much impact inflation can have.

Since 1925, US inflation has averaged 3% a year.** If that average inflation rate continues in the future, a person who currently requires $50,000 to cover annual living expenses would need approximately $90,000 in 20 years and $120,000 in 30 years *just to maintain the same purchasing power.*

Similarly, if you placed $1,000,000 under your mattress today, in 30 years that money would only be worth around $400,000 in today's dollars.

Maintaining Purchasing Power***



**Source: Global Financial Data, Inc.; as of 01/18/2013. Based on 9.72% annualized S&P 500 Index total returns from 1926-2012. The S&P 500 Total Return Index is based upon GFD calculations of total returns before 1971. These are estimates by GFD to calculate the values of the S&P Composite before 1971 and are not official values. GFD used data from the Cowles Commission and from S&P itself to calculate total returns for the S&P Composite using the S&P Composite Price Index and dividend yields through 1970, official monthly numbers from 1971 to 1987 and official daily data from 1988 on.*

***Source: Global Financial Data, Inc.; as of 01/18/2013. Based on US BLS Consumer Price Index from 1925-2012.*

****Estimate based on a 2.98% rate of inflation.*

3. How Do You Establish a Primary Investment Objective?

Time horizon, cash flow needs and inflation are all key factors to consider in your retirement planning. Another cornerstone is establishing a primary objective for your portfolio.

A precise way to determine your portfolio's objective is to define your "terminal value objective"—the amount of money you plan to have at the end of your portfolio's time horizon. Possible terminal value objectives include:

- **Maximizing terminal value:** You want to increase the purchasing power of your assets as much as possible across your time horizon.
- **Maintaining the value of the portfolio in real terms:** You aim to maintain your present purchasing power at the end of your time horizon.
- **Depleting assets:** You have no desire to leave any assets behind.
- **Targeting a specific ending value:** You desire a specific ending value, perhaps for making a donation to charity.

4. What Are Important Trade-Offs You May Need to Make?

Like many investors, you may plan to draw from your portfolio during retirement. The level of cash flow you require, combined with your terminal value objective, may require some trade-offs to minimize the risk of running out of money. For example, you may need to increase your exposure to investments with higher returns—and be willing to tolerate the greater volatility associated with them.

Understanding the trade-offs of different strategies is crucial. The following scenarios show the impact of four different rates of withdrawal on a $1,000,000 USD portfolio in the US under different asset allocations, plus one showing no withdrawals. The four withdrawal rates are: 10%, or $100,000 per year; 7%, or $70,000 per year; 5%, or $50,000 per year; and 3%, or $30,000 per year. These simulations were run using a Monte Carlo Bootstrap simulator; all withdrawal amounts are adjusted for inflation to maintain original purchasing power.*

**Bootstrap re-sampling is a type of Monte Carlo simulation, a technique that allows for random sampling of historical stock, bond and cash returns while incorporating historical inflation. This statistical method is non-linear and allows for the assignment of probabilities to various outcomes. All values are expressed in today's dollars, as of 12/31/2012. This informational analysis makes numerous assumptions, including but not limited to, the use of S&P 500 Stock Index and/or US 10-year Government Bond Index historical returns to project terminal value in the future or cash flow availability.*

No assurance can be given that these returns will be achieved. This analysis is for informational purposes only. It has been formulated with data provided to Fisher Investments and is assumed to be reliable. Fisher Investments makes no claim to its accuracy. The index(es) used in this analysis may not be the benchmark(s) selected for clients. Investing in securities involves risk of loss. Past performance is no guarantee of future returns.

Scenario #1: In this scenario, we simulate the results of a US investor taking annual withdrawals of $100,000 (10%) from a $1,000,000 portfolio (starting value) over a hypothetical 30-year investing time horizon.

$1,000,000 starting value over 30-year time horizon	10% Cash Flow		
	50% Stocks/50% Bonds	70% Stocks/30% Bonds	100% Stocks
Probability of ending balance > $0	1.3%	9.9%	**20.4%**
Probability of ending balance > $1,000,000	0%	5.5%	15.6%
Minimum years to portfolio depletion	7.9	7.3	6.3
Median terminal value	$0	$0	$0

Scenario #1 shows the probability of this portfolio lasting for 30 years—let alone growing—is very low.

Unfortunately, this is true for all three asset allocations in this example (50% Stocks/50% Bonds, 70% Stocks/30% Bonds and 100% Stocks). Though the portfolio comprising 100% equities produces the highest probability of asset survival, a 20.4% chance of not running out of money in retirement is hardly comforting.

Scenario #2: In this scenario, we simulate the results of a US investor taking annual withdrawals of $70,000 (7%) from a $1,000,000 portfolio over 30 years.

$1,000,000 starting value over 30-year time horizon	7% Cash Flow		
	50% Stocks/50% Bonds	70% Stocks/30% Bonds	100% Stocks
Probability of ending balance > $0	32.3%	44.8%	**51.9%**
Probability of ending balance > $1,000,000	13.4%	28.6%	38.0%
Minimum years to portfolio depletion	11.8	10.4	8.7
Median terminal value	$0	$0	$106,954

Scenario #2 shows the probability of asset survival and growth improves by reducing withdrawals. But even with 100% equity allocation, the likelihood of not running out of money is still only 51.9%.

Scenario #3: In this scenario, we simulate the results of a US investor taking annual withdrawals of $50,000 (5%) from a $1,000,000 portfolio over 30 years.

$1,000,000 starting value over 30-year time horizon	5% Cash Flow		
	50% Stocks/50% Bonds	70% Stocks/30% Bonds	100% Stocks
Probability of ending balance > $0	78.5%	79.3%	74.9%
Probability of ending balance > $1,000,000	44.7%	53.5%	59.3%
Minimum years to portfolio depletion	17.1	14.8	11.4
Median terminal value	$812,642	$1,184,493	$1,742,935

Scenario #3 shows reducing withdrawals to 5% of a portfolio greatly improves the probability of both asset survival and growth. Note, however, that no single asset allocation is substantially superior to the others.

Scenario #4: In this scenario, we simulate the results of a US investor taking annual withdrawals of $30,000 (3%) from a $1,000,000 portfolio over 30 years.

$1,000,000 starting value over 30-year time horizon	3% Cash Flow		
	50% Stocks/50% Bonds	70% Stocks/30% Bonds	100% Stocks
Probability of ending balance > $0	99.9%+	99.6%	95.3%
Probability of ending balance > $1,000,000	82.9%	83.8%	79.1%
Minimum years to portfolio depletion	30.0	27.3	18.4
Median terminal value	$2,148,193	$2,918,597	$3,531,734

Scenario #4 shows materially better probabilities of both asset survival and growth. Using all three asset allocation scenarios, median ending value is higher than the starting value, though 100% stocks shows the best median portfolio growth.

Scenario #5: In this scenario, we simulate the results of a US investor taking no annual withdrawals.

$1,000,000 starting value over 30-year time horizon	0% Cash Flow		
	50% Stocks/50% Bonds	70% Stocks/30% Bonds	100% Stocks
Probability of ending balance > $0	99.9%+	99.9%+	99.9%+
Probability of ending balance > $1,000,000	99.9%+	99.3%+	97.1%
Minimum years to portfolio depletion	30.0	30.0	30.0
Median terminal value	$4,253,282	$5,321,377	$6,531,160

For investors with no annual cash flow needs, probability of asset survival is excellent in all three asset allocation scenarios. However, as many may expect, a simulation of 100% stocks resulted in the highest median portfolio terminal value.

Which scenario and asset allocation make you most comfortable?

There is no one right answer—only the answer that's right for you. If maximizing terminal value is your primary objective, a portfolio with 100% equity might make the most sense.

However, if you want to maintain purchasing power with less volatility, then a 70% equities and 30% bonds allocation may be more appropriate. Determining your primary objective can help you decide which asset allocation is best for your needs.

Planning Your Retirement With Fisher Investments

Still have questions? Not sure what's best for you? Need help getting started? We've helped thousands of investors—each with unique goals and objectives—plan for retirement. Call Fisher Investments at 888-291-0675 to find out how we can help you achieve the comfortable retirement you've been working and saving for.

Past performance is no guarantee of future results. Investing in securities involves the risk of loss.

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Facts About Fisher Investments to Compare With Your Current Adviser

Fisher Investments	Your Investment Adviser
☑ Your portfolio is constructed according to your specific needs, taking into account your investment objectives, time horizon for the assets, cash flow needs and other factors specific to you.	?
☑ You get proactive service from your own Investment Counsellor, who will keep you up-to-date on your portfolio.	?
☑ Your portfolio is managed by a team with over 100 years of combined industry experience.	?
☑ Your firm's CEO has written for *Forbes* magazine for over 28 years and has written ten books on investing and wealth creation, including four *New York Times* bestsellers.	?
☑ You get a disciplined approach to your investment strategy that goes beyond just stock picking.	?
☑ You can take advantage of global investing opportunities with our significant experience investing domestically and overseas.	?
☑ You won't be limited to a single style of investing (like "growth" or "value") as we can shift our strategy based on our forward-looking view of market conditions. If we forecast an upcoming bear market, we might adjust your portfolio allocation to be more market neutral with fewer stocks and more bonds, cash or other securities.	?
☑ You'll have competitive, transparent fees that align our interests with yours. If your portfolio does better, we both do better.	?

Fisher Asset Management LLC, doing business as Fisher Investments
5525 NW Fisher Creek Dr., Camas, WA 98607
888-291-0675
www.fisherinvestments.com

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