



AMBROSE
WEALTH MANAGEMENT

[Partners in Managing, Protecting,
and Distributing Wealth.]

Investment Distribution Strategies

Taking the Guess Work **Out** of Retirement Planning



When it comes to figuring out your retirement plan, do you feel like this?



Headlines

“Nearly half of non-retirees expect a 401(k) plan or IRA to be a major source of income when they retire.”¹

“Retirement has been the biggest financial worry for Americans for each of the last five years.”¹

“According to an EBRI study, 68.35% of all employees participate in Employer Sponsored Retirement Plans.”²

“For those ages 55+, 51% have less than \$50,000 and 63% have less than \$100,000.”²

“Over half of new retirees wish they had done more to prepare for retirement.”¹

“According to a recent Gallup Financial Survey, 60% of the respondents were either “very worried” or “moderately worried” about having a big enough nest egg upon retirement.”¹

Times are Changing

Times have certainly changed since our parents retired. A significant shift towards those drawing from **Social Security** versus those contributing, coupled with an **increased life expectancy** is putting continuous pressure on future government-sponsored benefits. Corporate-sponsored programs aren't fairing much better. Each year **pensions** are becoming a thing of the past too. The reality is that individuals are becoming more and more dependent on their own resources for their future retirement income needs.

Add to this the **increasing cost of healthcare**, a **cyclical bear market for real estate assets**, and a **volatile stock market**, our Baby Boomer generation is facing some significant challenges as they enter retirement in the coming years.

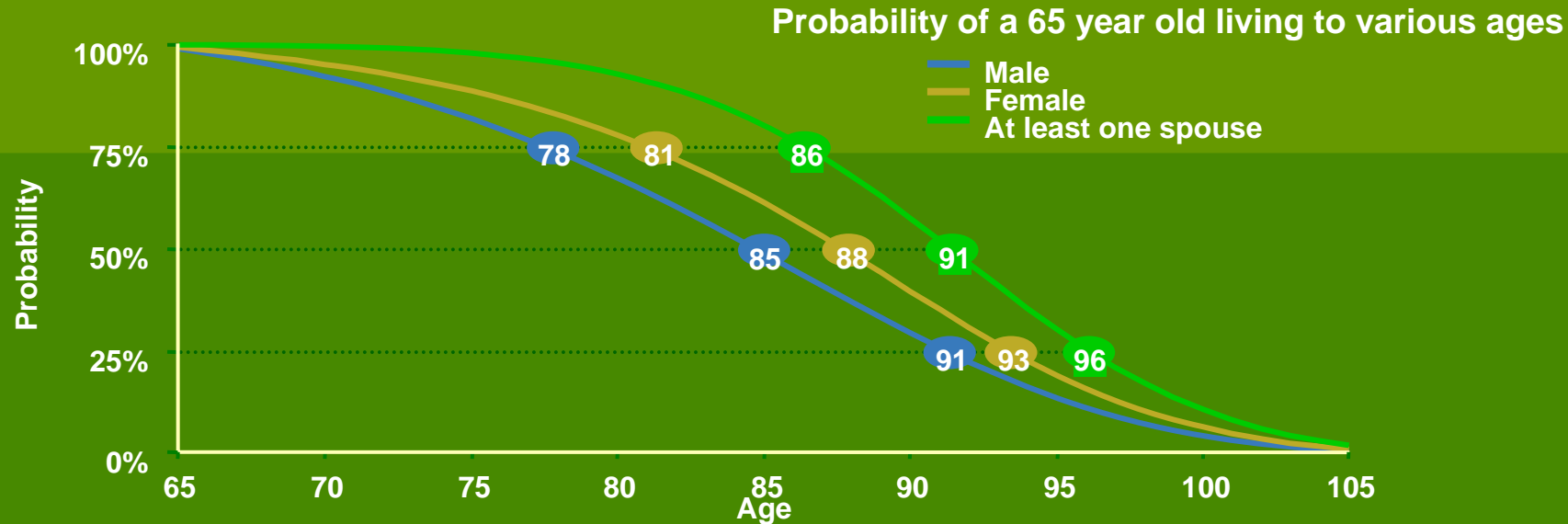
The Retirement Challenge

- The question for some is not when can they retire, but can they retire at all?
- Do I have enough savings to comfortably live through a potential 30 year retirement?
- How much of my retirement portfolio should I withdraw each year to make it last until I die?
- What if we go through a sustained bear stock market?
- Should I be more conservatively allocated?
- How can I become less dependent on the stock market so that I can sleep better at night?

...all valid concerns.

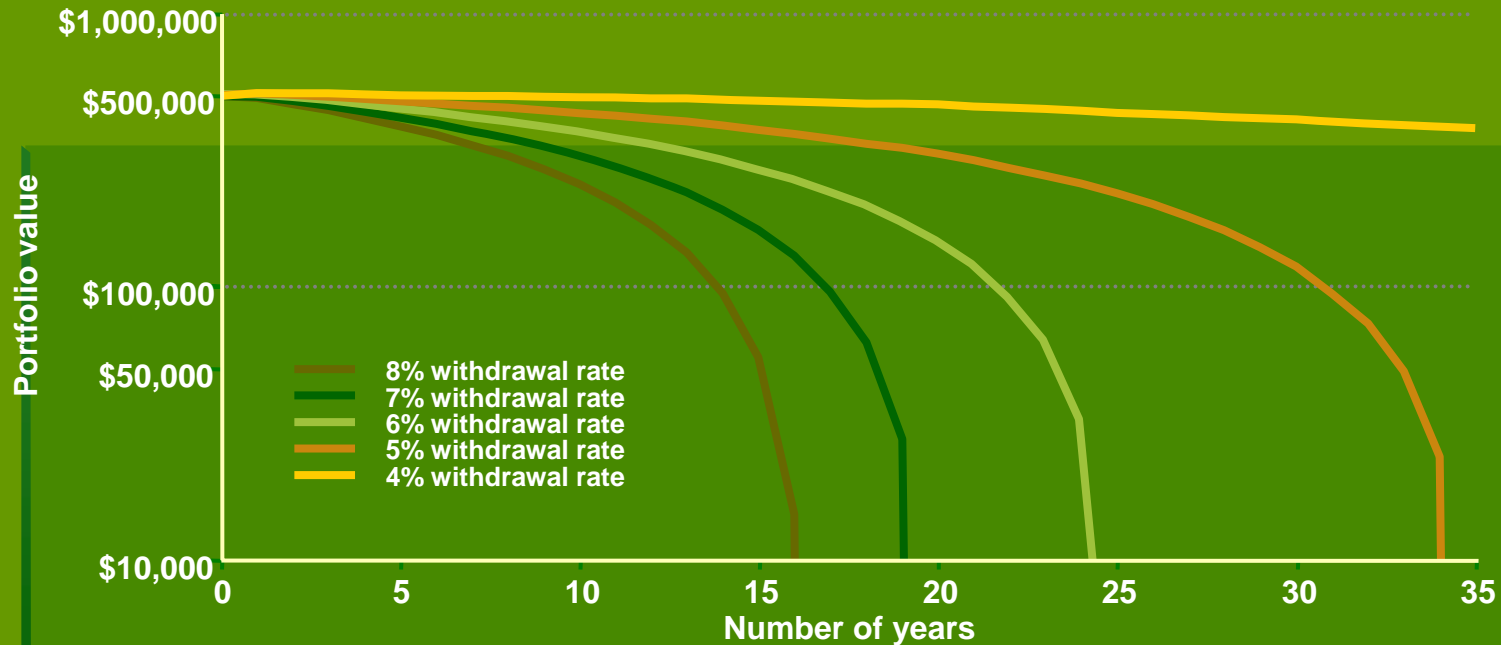
The following illustrations provide us some guidance for what we can expect in the coming years.

Living Longer



- Life expectancies have been increasing, and retirees should consider their chances for a long retirement and plan accordingly.
- The longer retirement is, the more a retirement portfolio is subject to the negative effects of inflation.
- The stress of periodic withdrawals over a long period of time can reduce the asset base of a portfolio to levels that may not be able to sustain retirement goals, and...
- Market volatility makes this more problematic.

Falling Short

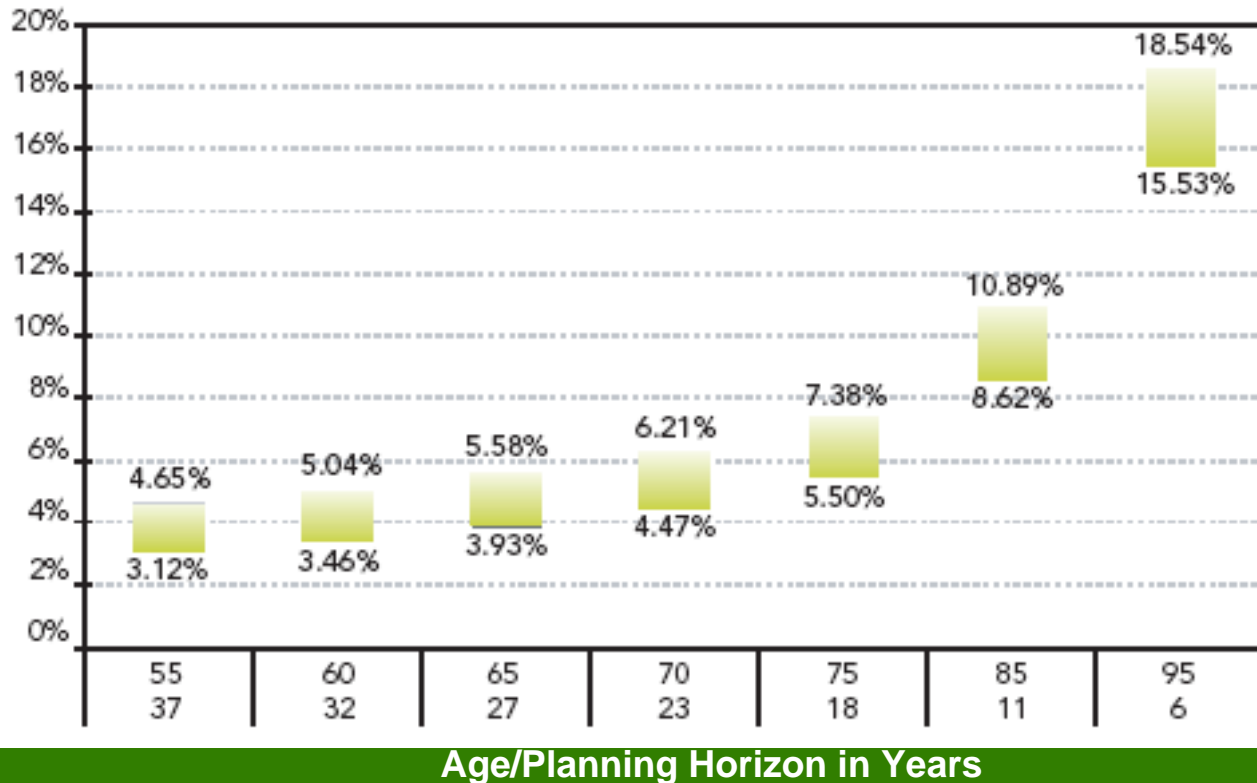


- Withdrawal rates have a dramatic impact on determining how long a portfolio can last in retirement.
- This image looks at a hypothetical 50% stock / 40% bond / 10% cash equivalent portfolio and the effect various inflation-adjusted withdrawal rates have on the end value of the portfolio over a long payout period, and...
- The higher the withdrawal rate, the greater the chance of potential shortfall.

Sustainable Withdrawal Rates

The following chart shows a range of sustainable withdrawal rates based on given life expectancies and a balanced retirement portfolio of stocks, bonds, and cash.

Inflation-Adjusted Withdrawal Rate, %



Source: Fidelity Strategic Advisors, Inc. Hypothetical value of assets held in an untaxed portfolio of 50% stocks, 40% bonds, and 10% short-term investments with inflation adjusted withdrawal rates as specified. Historical annual data from 1926 through 2005 is from Ibbotson Associates: stocks, bonds, and cash are represented by S&P 500, US Intermediate Government Bonds, and US 30-day T-bill, respectively. Constant 2.47% inflation rate assumed. Actual inflation rates may be more or less and will vary. This is for illustrative purposes only and not indicative of any investment.

“Point in Time” Retirement Risk

There is another important risk that should be considered when planning to retire.

Retiring in 2000 versus 2003 had a very different effect on a retirement nest egg, especially once withdrawals begin. The risk of retiring at the peak of a market, followed by meager retirement portfolio performance is considered “point in time” retirement risk.

Although your portfolio’s average annual returns during your retirement years have an affect on the sustainability of your retirement portfolio, **the order of annual returns has an even bigger effect!**

When Should I Retire?

Let's assume you have a \$1,000,000 Retirement Nest Egg and plan to withdraw 5% of your portfolio each year, with inflation at 3% per year. Using 1978-2002 as an example, over your 25 years of retirement, your growth portfolio receives the following annual returns:

Scenario A

Returns by Year:

<u>29%</u>	8%	33%	21%	10%
<u>18%</u>	27%	11%	-3%	22%
<u>25%</u>	-2%	-10%	3%	-14%
-6%	15%	5%	11%	-21%
15%	19%	17%	4%	-12%

**Looks great! But what if we aren't
so lucky?**

**After 25 years, what is your
Nest Egg worth?**
\$1,200,000

When Should I Retire?

What if we received the same retirement portfolio returns, but in the reverse order? How would we fair?

Scenario B

Returns by Year REVERSED:

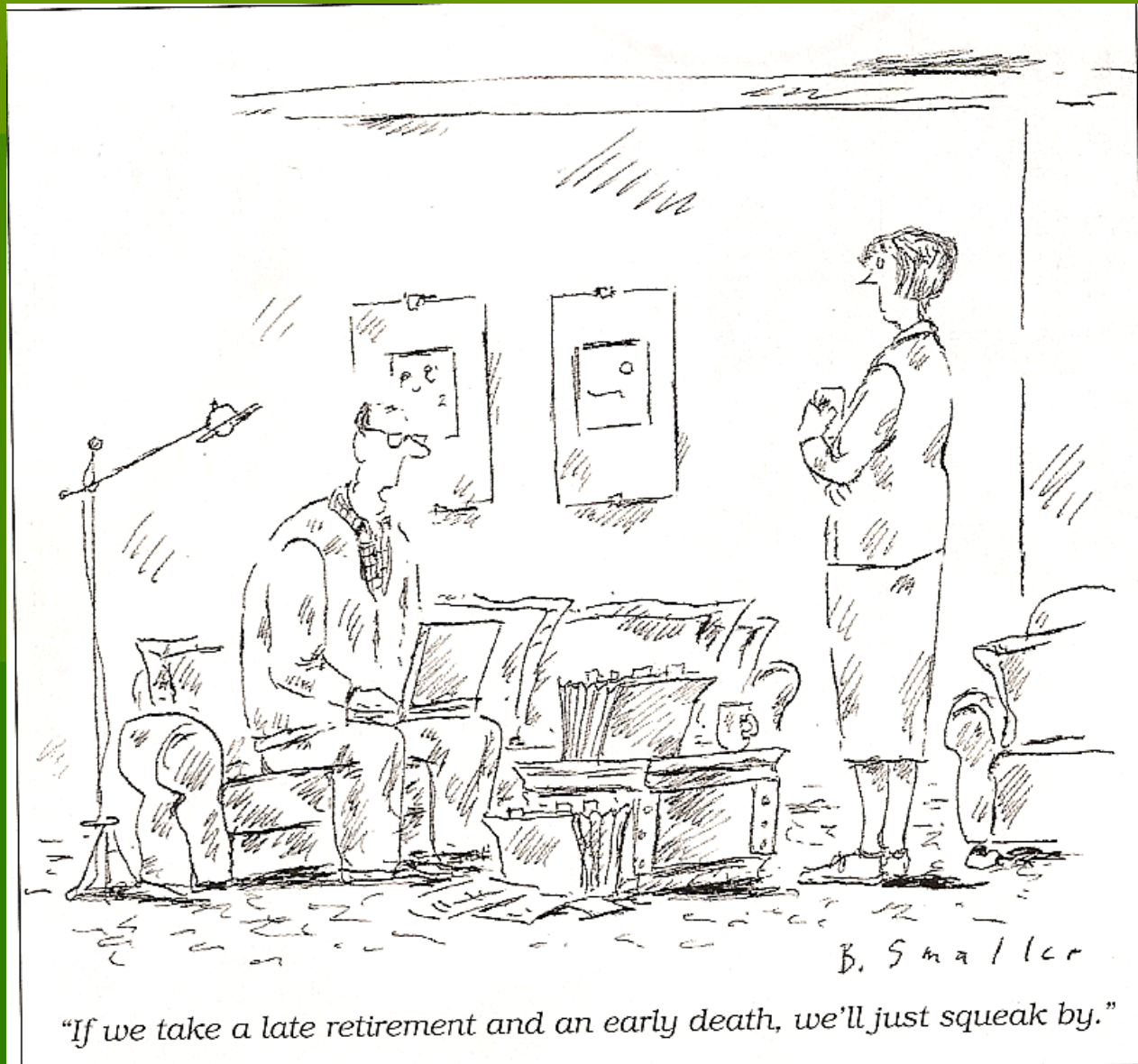
<u>-12%</u>	4%	17%	19%	15%
<u>-21%</u>	11%	5%	15%	-6%
<u>-14%</u>	3%	-10%	-2%	25%
22%	-3%	11%	27%	18%
10%	21%	33%	8%	29%

After 25 years, what is your
Nest Egg worth?

**So how do you become less
dependent on the market in
deciding when you want to retire?**

**\$0
You're Bankrupt
in 18 Years!**

What are you going to do?



The Solution:

Investment Distribution Strategies

using our

“Red, Yellow, and Green” Money Strategy

Red, Yellow, Green Money Strategy

Objective

A strategy that has often been talked about, and even written about, but rarely put into practice, is the division of money into three basic financial need time horizons; short term (0-2 years), mid-term (2-10 years), and long-term (10+ years).

The objective for each “bucket” of money is to achieve an historically achievable return on investment while significantly reducing the likelihood of investment loss over the given time horizon. Ambrose Wealth Management has called this our Red, Yellow, and Green (RYG) Money Strategy.

This strategy is intended to achieve the following:

- Meet short-term distribution needs such as retirement, home or auto purchases.
- Maintain a manageable level of risk and volatility over a given time horizon.
- Prolong the longevity of retirement assets in anticipation of longer life expectancies.
- Reduce point in time retirement risk.
- Simplify the planning process.
- Set realistic performance expectations.
- Put our client’s mind at ease.

Red, Yellow, Green Money Strategy

How It Works

A Three “Bucket” Asset Division Strategy:



- **Red Money – Short-Term Target Distribution:**
Designed to provide two years of current cash flow and principal liquidity by investing in short-term bonds and cash instruments.



- **Yellow Money – Mid-Term Target Distribution:**
Designed to provide moderate growth over a two to ten year period by investing in a balanced mix of stocks, bonds and other non market dependent solutions.



- **Green Money – Long-Term Growth:**
Designed to provide long-term growth and inflation protection from year ten to life expectancy by investing in a diversified, equity-driven portfolio.

Red, Yellow, Green Money Strategy

Reducing Volatility

Not only is the division of money into “buckets” a more simple approach to the planning process, but it is designed to reduce the likelihood of investment loss over the intended investment time horizon, which is one of our clients’ primary concerns.

The following illustration shows historical index performance for three separately invested portfolios of assets. Red Money invested in cash and bond securities. Yellow Money invested in a balanced portfolio of stocks and bonds. Green Money invested in primarily stocks.

As you’ll see, by managing each investment time horizon accordingly, the likelihood of investment loss is mitigated. In addition, expectations of return can better be established between our team and our client.

Red, Yellow, Green Money Strategy

Mitigating Risk

RANGE OF HISTORICAL RETURNS (1973-2005)

32 Years

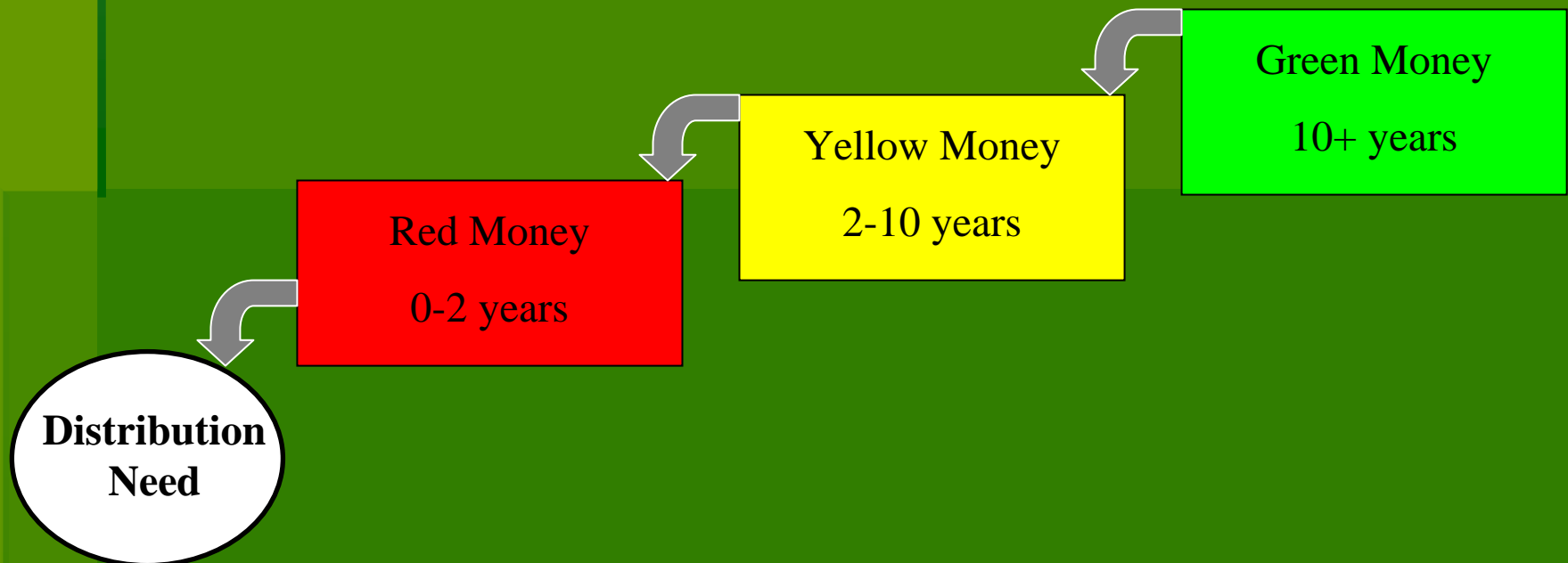
	Red Money Short-Term Target Distribution		Yellow Money Mid-Term Target Distribution		Green Money Long-Term Growth	
Percent of Periods with Positive Returns	3 mo.	95.25%	3 year	94.74%	10 year	100.00%
	1 year	100.00%	5 year	100.00%	15 year	100.00%
	2 year	100.00%	7 year	100.00%	20 year	100.00%
Best Returns (annualized) (*3 mo not annualized)	3 mo.*	9.70%	3 year	30.28%	10 year	21.67%
	1 year	20.82%	5 year	25.70%	15 year	19.53%
	2 year	16.74%	7 year	21.34%	20 year	16.86%
Worst Returns (annualized) (*3 mo not annualized)	3 mo.*	-1.14%	3 year	-6.99%	10 year	5.80%
	1 year	0.21%	5 year	0.33%	15 year	6.30%
	2 year	1.14%	7 year	4.52%	20 year	10.87%

Statistics are based on the following allocations; Red Money (100% cash) Yellow Money (50% stocks, 50% bonds) Green Money (100% stocks) Historical data from 1973 through 2005 is from Ibbotson Associates: stocks, bonds, and cash are represented by S&P 500, US Intermediate Government Bonds, and US 30-day T-bill, respectively.

Red, Yellow, Green Money Strategy

Re-allocation Process

As time progresses and distribution needs are met, assets may need to be re-allocated across the three “buckets”. If short term assets are diminished, growth from mid term assets may be used to replenish them. If distribution needs decrease or performance in mid term buckets are higher than expected, assets may also be allocated “upstream” towards longer term needs.



Investment Distribution Strategies

Adding an Income Guarantee “Option”

Most pensions are a thing of the past. For a portion of your retirement savings we could replace the traditional pension plan concept with:

- A **PREDICTABLE** stream of income for the rest of your lifetime.
- **PARTICIPATION** in the stock market, giving your portfolio and income stream the best long-term chance of keeping up with inflation.
- **PROTECTION** against the risk of the market with principal and growth guaranteed by top-rated insurance companies.
- A **LEGACY** left to your family. Unlike variable annuities of the past, your portfolio will be owned and **CONTROLLED BY YOU**, even when you begin to take withdrawals.

Investment Distribution Strategies

Variable Annuities defined

- A variable annuity is a contract that requires the insurance company to provide you with tax deferred investment growth with the option of future income.
- The variable annuity contract allows you to invest in a number of variable sub accounts, similar to mutual funds.
- Variable annuities provide several benefits
 - guaranteed principal
 - tax deferred investment growth for non-qualified accounts
 - professionally managed portfolios
 - guaranteed income for life

PLUS... the option of additional performance features and guarantees that may include **minimum income or accumulation guarantees** for the owner and/or **minimum death benefits** for the owner's beneficiaries.

Investment Distribution Strategies

Variable Annuity Option Terminology

The **Guaranteed Minimum Income Benefit (GMIB)** option on a variable annuity is the driving force behind the growth and income benefits of our clients' portfolios.

Portfolio Value – The value of your investment portfolio based on the performance of your underlying investment strategy, net all expenses, additions, and withdrawals.

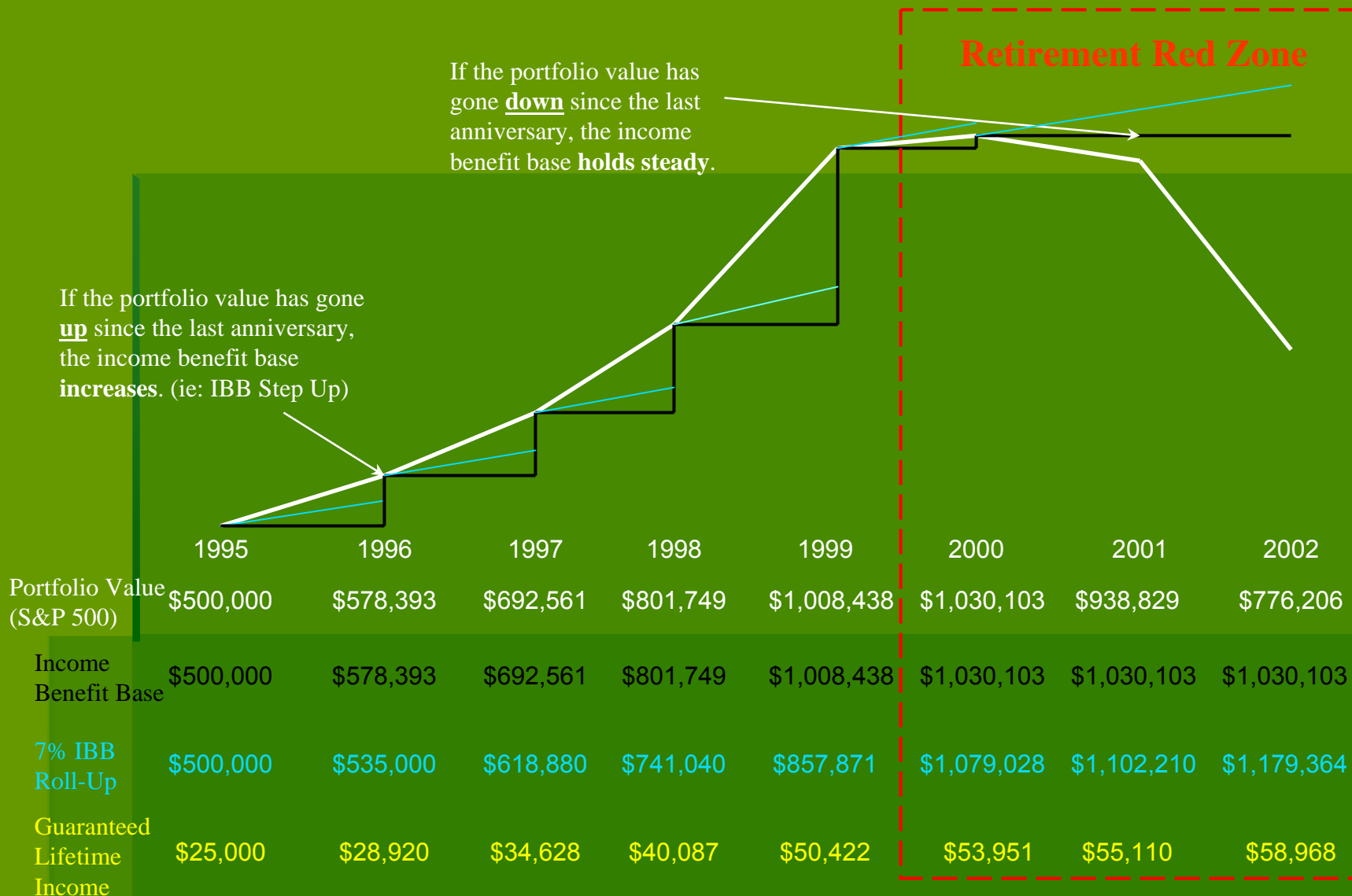
Income Benefit Base (IBB) – The minimum value upon which your future guaranteed lifetime income withdrawal is based.

IBB Step-Up – Any increase in IBB as a result of your portfolio value being worth more than a previously set IBB on the anniversary date of your investment.

IBB Roll-Up – A simple interest annual increase in your IBB used to compute your minimum lifetime income on the first date of withdrawal.

Guaranteed Lifetime Income - At the time of your first withdrawal, your Guaranteed Income is based on a percentage (depending on age) of the greatest of Portfolio Value, IBB Roll-Up, or IBB.

An Illustration of a Guaranteed Minimum Income Benefit



At the time of your first withdrawal, your Guaranteed Income is based on 5% of the greatest of Portfolio, IBB Roll-Up, or IBB. Future IBB Roll-Ups are given only in years when withdrawals are not taken, but your IBB can still automatically “step-up”, thereby increasing your lifetime income.

Investment Distribution Strategies

Non Stock & Bond Market “Dependent” Investing

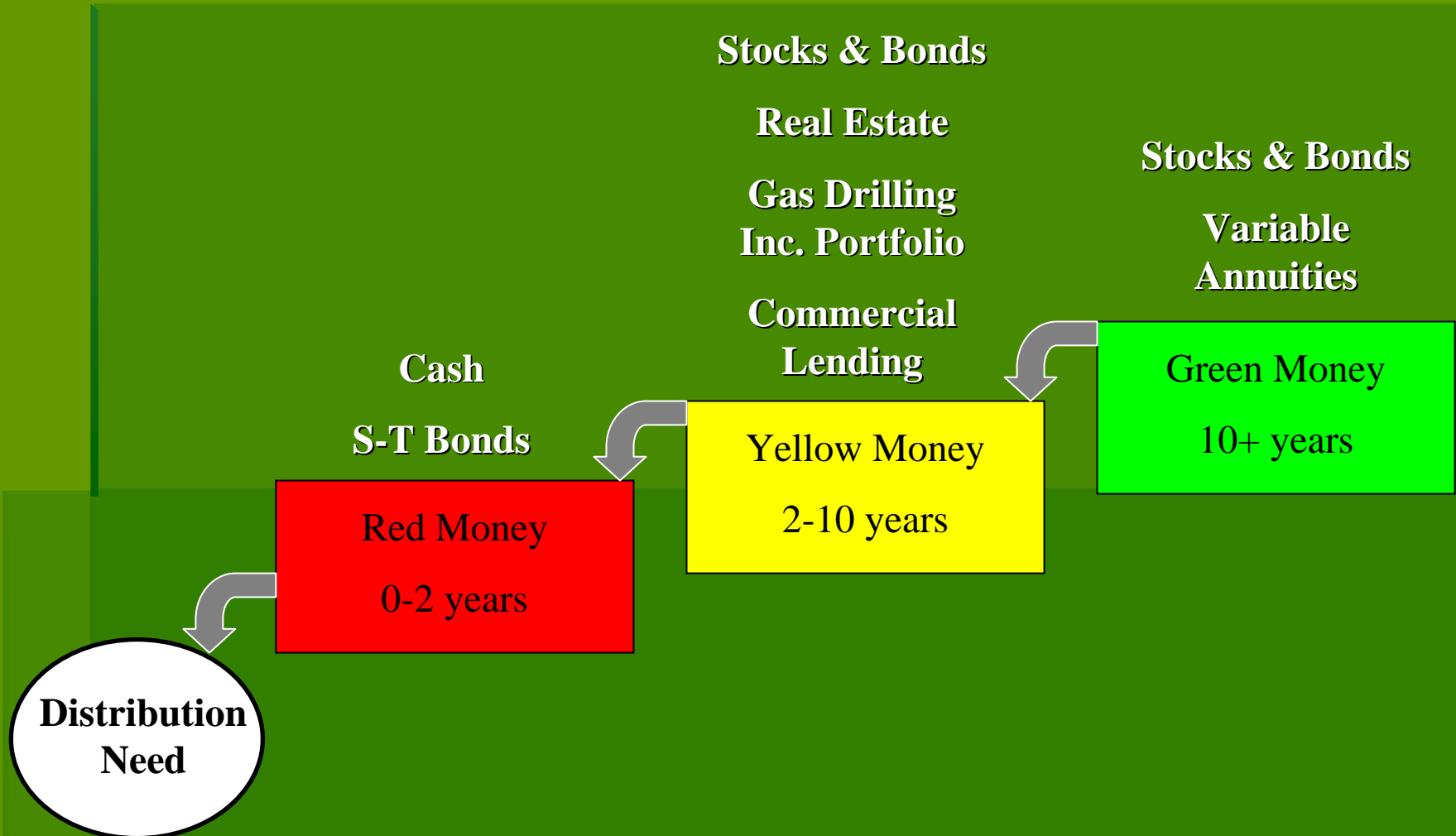
We also encourage the diversification of assets into solutions that are **not fully dependent on (or correlated to) the performance of the stock and bond markets in the US or worldwide.**

Professionally-managed Commercial Real Estate, Commercial Lending, and Gas Drilling Income Investments as a portion of a properly diversified investment portfolio can provide our clients with benefits such as:

- Tax-favorable **income**
- Principal **growth**
- Potential income and capital gains **tax reduction or elimination.**

Red, Yellow, Green Money Strategy

Example of Investments by Bucket



Meeting the Retirement Challenge

Retire when you want, how you want, and for as long as you need by:

- **Implementing our Red Yellow and Green Money Strategy.**

Actively divide and manage your portfolio by short-term, mid-term, and long-term income and growth needs.

- **Diversifying into non-correlated investments such as Real Estate, Gas Drilling, and Commercial Lending.**

Become less dependent on the stock and bond market by investing in income and growth opportunities less correlated to the market.

- **Allocating a portion of your portfolio to a Variable Annuity with a Guaranteed Minimum Income Benefit.**

Protect your investment portfolio's income with guaranteed growth and lifetime income benefits.

Investment Distribution Strategies

Retiring doesn't have to be like diving off a cliff. With professionally managed retirement portfolios offered through Ambrose Wealth Management, you can regain control of this exciting new phase of your life.