Consumer Insights
" Hold 'em or Fold 'em: Retirement Dilemma"

Houston, Texas
For Immediate Release

The meltdown of the financial markets has retirement-minded folks on edge. The massive government bail-out of Wall Street, a broken stock market, forced mergers of collapsing corporate giants, bankruptcies and talk of financial doom has Main Street on the brink of panic. Retirement money in stocks, bonds, mutual funds, variable annuities and other investments, inside and outside of 401(k) plans, has lost 15% or more on average thus far in 2008. Is your retirement money safe? Will you have to postpone or scale-down retirement? Is the worst over? Is this the beginning of another Great Depression?

There are two truisms about "the market". First, no one knows what the future holds. Not the talking heads who profess to know, not economists, not your broker and certainly not government bureaucrats! Second, never put money in the market you can't afford to lose. Make no mistake about it: the market is about risk of loss – to think otherwise is naive. If you can't afford to lose a big chunk, or all, of your retirement money, don't gamble in the market. If you're in the market and can't afford losses, get out. Yes, it may rally – or get worse. Yes, the paper losses become real if you sell – but don't sell, and they could get a lot worse. Maybe – or maybe not – you'll be fine in the long run. To put things into perspective, let's review recent history.

In mid-September 1998 the Dow Jones Industrial Average ("DJIA"), the most prominent barometer of the stock market, closed at 8089.78. Exactly ten years later the DJIA closed at 11,059.02, or 36.7% above the 10-year-ago level. This average annual gain of 3.67% is about one-third of the 10% annual long term stock market gains touted by Wall Street that Americans cranked into their retirement plans. Actually, it's much worse than these numbers reflect for two reasons.

First, inflation has not been taken into account. It's *not how much money you have but how much your money will buy*. The All Urban Consumer Price Index ("CPI-U") was at 163.6 in September 1998 at the start of the period and 219.1 at the end – an increase of 33.9%. In other words, what cost $163.60 in 1998 cost $219.10 in 2008. The 36.7% gain in the DJIA over the ten-year period has been slashed to about 3%, or 0.3% a year. This is no where near the long-term returns boasted by Wall Street. But, we're not done yet.

Second, over any given five-year period only about 5% of the money managers of mutual funds match or beat the broad market indexes. This means the growth of your mutual funds, the most common selection inside a 401(k), is not likely to match the DJIA. In fact, after adjustment for inflation and handicapping your money manager, the chances your mutual funds will beat the market averages over a ten-year period is about one in twenty. So much for the much heralded "Wisdom of Wall Street"!

Things could get much worse – in fact they have if we select a different period. Since January 2000, the DJIA has actually lost 3% while prices have risen 29.8%. Add the money managers' handicap, and you have a "real loss" of over 30% -- representing about ten years of your retirement money. Since October 2007, the typical 401(k) has lost 20% or more of its value even before adjustment for inflation. It may get worse or it could get better – no one knows and therein is the risk. Predicting the market years in advance is like forecasting the weather for 2012 and beyond. Why deal with the stress of a ruined retirement when there are alternatives with predictable returns and no risk?

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September 2008