

June 3, 2004

This is the June 2004 monthly Wealth Management newsletter from Hoffman, White & Kaelber Financial Services, LLC. If you do not wish to be included in our circulation, please reply indicating your desire to be removed and we will be happy to oblige. Alternatively, any of your friends or colleagues may receive this on a regular monthly basis by sending their name and email address to info@hwkfs.com. Feel free to forward this to any of your friends who may find it useful. Thanks for your interest and I hope you enjoy the letter.

Do You Think You Know What Your Life Will Be Like When You Retire? I'm Willing to Bet You're Wrong

Even if you work long and hard enough to afford the standard vision of a "perfect" retirement, you will almost certainly be bored by it. You may not want to believe me, but tell me this: How many business people have you known who retired, found themselves bored, and went back to work?

Maybe you will be the exception. Maybe you can walk away from a lifetime of creative, challenging work and be happy to idle away the rest of your life.

As mentioned in our prior newsletters, we strive to provide articles on various aspects of wealth management to assist your understanding of why planning for the present and for your future has importance. Yes, we also promote our services; yet, you will find that we always seek to present thought provoking topics that are relevant to our wide audience.

Planning for a successful retirement may truly be one of the most challenging endeavors to be expected during your life time. If this is so, why is it that so many people reach that point of life so unprepared? The ability to gear yourself down to a simpler and more tranquil pace will take a great deal more effort than you probably realize; and, affording your desired lifestyle will be the second major challenge at retirement and things will probably be different than you imagine.

In this letter, we will discuss some practical retirement planning considerations to point you in the right direction and, as always, we will finish with an update on our investment activities.

Think You Know What Your Life Will Be Like When You Retire? I'm Willing to Bet You're Wrong

On my last vacation, I met a man who had retired when he was 39 – he was 45 when we met. Immediately after selling his multimillion-dollar business, he decided to "kick back" and dabble in writing and painting for a while. As it turned out, "dabbling wasn't in my bones", he advised. Within a few months of walking away from his career, he had a full-time executive assistant and a large personal office to handle the volume of activities he was creating. Soon, it dawned on him - he was just as busy as he had ever been. And he had as many challenges, frustrations, rewards, and disappointments. The big difference was that he wasn't getting paid for it!

You may be able to gear yourself down to a simpler and more tranquil pace. But it will take a great deal more effort than you probably realize. And, when considering the question of having enough money, you will face the second big reason your retirement will probably be different than you imagine. Because living the fantasy lifestyle is expensive.

Even if you find a relatively cheap place to live, playing golf or tennis all-day and dining at

June 3, 2004

fine restaurants costs a lot of money. That kind of living could easily cost you, pre-tax, between \$150,000 and \$250,000 per year in today's dollars.

What would it take to have that kind of money? Let's look at the math.

Assuming your retirement fund can earn 9% a year (which is about equal to the long-term stock-market return), with reinvestment of a portion to compensate for the effects of inflation, you'd need between \$2.5 million and \$4.2 million in liquid assets. That's not counting the value of assets that you use, such as your house, your furniture, your collectibles, etc. If you go for a safer yield, let's say U.S. Treasuries, your retirement fund would have to be at least 50% more than that amount. To have between \$2.5 and \$4.2 million, liquid, you would probably need to acquire a net worth of about twice that - all else being equal.

Not too many people are worth between \$5.0 million and \$8.4 million when they retire. Yet, many, many fantasize about a retirement lifestyle that requires that kind of net worth.

If your current financial situation is meager, don't despair. Because accumulating wealth is just another goal . . . like learning to ski or play the piano. And, with proper planning, you can definitely do it.

In the meantime, there are ways to bring the target a little closer. The best way - by far - is to find a retirement paradise that is less expensive than where you live now. If you can enjoy living in some other part of the world, more often than not, you can get that great retirement lifestyle for less money.

The Secret to Enjoying a Great Retirement

To understand what I'm about to say, you have to understand this: Happiness in life comes not from idleness but from working. Not working at a job you hate, but working at a task you love.

Happiness comes when you are busy doing something you care about . . . such as teaching, taking care of your children, painting, fixing a faulty switch, or writing a helpful memo. When you are doing something you care about, and paying attention to IT (not YOU), happiness surprises you.

The secret to a great retirement is to figure out how to get paid for doing work you would gladly do for free - and to be able to do that work when and where you want to.

Name your dream . . . pick your price.

Maybe you want to be a writer. Maybe your secret passion is food. Maybe you've always wanted to get back into astronomy or archeology or gardening. Somewhere in your past is a buried profession - something you've long ago given up on. What if you could renew that dream?

The Internet has opened up a world of possibilities for "retirees." I recently saw a news story about a guy who trades cigarette lighters online. This happens to be something he always wanted to do and planned to do once he stopped working. But by taking advantage of eBay and all the other Internet auction sites, he is already making more than \$30,000 a year doing

June 3, 2004

it just on weekends. Trading cigarette lighters! And, if you look hard, I'm sure you'll find plenty of other examples.

Start your retirement planning right now. Ask yourself the three Big Questions:

1. "What work would I really enjoy doing?"
2. "Who would be the best person to do it with?"
3. "Where would I most want to do it?"

You may not be able to find a partner or relocate right away, but you can definitely start working on mastering the skills you're going to need for your new line of work.

Don't tell yourself you're too old to make a big change now. During his retirement, Henry Flagler became the central figure in taking on the development of an entire state. Upon retiring to Florida, he built a railroad from Jacksonville to Key West, created three major cities and built world-class hotels. Do I need to go on?

Let Me Help You Get Started On Your Hour-a-Day Fast Track to Success

What does it take to be successful? There is a very simple, tried and proven method that will work for just about anyone . . . and in a remarkably short time.

Study something - anything that is of interest to you - for one hour a day in the same way that a university student would study one of his courses.

This is a concept that was popularized by Earl Nightingale a half-century ago and then largely forgotten. But, as Nightingale discovered, daily study is a trait of almost all successful individuals. And it quickly pays off. Because after just six months of concentrated, one-hour-a-day study, you can understand the basics of almost any topic.

Sound simple? It is. That's the beauty of it, and one of the reasons this technique can change lives . . . the lives of directionless teenagers . . . of people stuck in mid-career ruts . . . and of those in their golden years who feel sidelined by society and need some extra cash.

What might you study in order to be able to achieve the freedom you want and the revenue to enjoy it? The obvious answer is something you are passionate about. It not only makes the learning fun but also assures that your new career will be emotionally as well as financially satisfying.

Happy with the company you're already working for? There is no surer way to move up the corporate ladder than by learning more about the industry you're in. After just a month or two of daily study, you'll be demonstrating your fast-growing knowledge on the job -- and attracting the attention of your superiors.

While you may not be able to become a brain surgeon by studying one hour a day for six months, there many careers for which that minimal effort will get you well on your way. How long, for example, would it take for you to become a really competent video editor? To learn how to build a great skateboard? To learn the critical principles of design for websites? Regardless of what you choose to study, don't procrastinate. If you don't learn something new today, you will just be one day older and not one bit smarter tomorrow.

June 3, 2004

Hoffman, White & Kaelber Financial Services Investment Performance Update

During this past month, the various global broad market sectors we follow continued to demonstrate abnormal trading patterns. Despite this, most managed to end on a positive note. And, so did we. As well, our portfolio clients should have noticed that we began repositioning holdings this month to a more defensive stance in preparation for rising interest rates. With cash balances well above average in many accounts, we will be looking to put that money to work during the month of June.

For the month ended May 31, 2004, our one-month performance is up 0.54%, our three-month return is off 4.45%, our one-year return is up 8.89%, and our average annualized return since inception is up 14.03%. Over the last fifteen months, we posted negative returns only once. Our (since inception) risk profile has begun its recovery from last month's unexpected spike and edged lower to +/-7.66%. This risk level remains conservatively low and is consistent with our strategy. With an up month and a lower risk profile, our Sharpe Ratio increased to a very respectable 1.73.

About Measuring Risk and Sharpe Ratios

Investment pros borrow a tool from the statisticians—standard deviation—to measure investment risk. It shows the **range** of returns that investments are likely to earn over a given period of time and it has two sides, the out-performance and the under-performance of an average rate of return.

For example, let's look at the S&P 500 Stock Index and consider the average rate of return 8.5% and standard deviation +/-16% for 30 years. The standard deviation tells us that a relatively bad year for the Large Cap market overall would have been negative -7.5% and a relatively good year would have yielded a higher positive return 24.5%. The range from down 7.5% to up 24.5% corresponds to outcomes within one standard deviation of the 8.5% average. It captures 68 of the total 100 observations. If the trend of this previous century carries into the next, we might expect that 2/3 of the time; this collection of stocks will provide a return within this range.

The Sharpe Ratio is a commonly used measure of portfolio earnings quality. In short, the Sharpe Ratio is a measure of return achieved per risk taken. Sharpe ratios can be better than just looking at performance because it incorporates the issue of risk. Some would say it is a measure of a manager's ability to perform consistently. The number by itself, however, is hard for many to understand without comparing it to something.

Let's take a look at the S&P 500 Index for a quick comparison. The Standard & Poor's 500 Index is usually considered the benchmark for US equity performance. As the name suggests, the S&P 500 consists of 500 companies from a diverse range of industries. Contrary to popular belief, the S&P 500 is not a simple list of the largest 500 companies by market capitalization or by revenues. Rather, it is 500 of the most widely held US-based common stocks, chosen by the S&P Index Committee for market size, liquidity, and sector representation. For the last ten years, the Sharpe Ratio for the S&P 500 is less than 0.40 and it doesn't look much better when looking over the past thirty years.

HOFFMAN, WHITE & KAELBER FINANCIAL SERVICES, LLC
INVESTMENT MANAGERS & FINANCIAL ADVISORS

June 3, 2004

Are you familiar with Morningstar, Inc.? They are a Chicago-based, global investment research firm, providing information, data, and analysis on the mutual fund industry. They say that a Sharpe Ratio of over 1.0 is "pretty good" and outstanding funds achieve something over 2.0. Using this "yardstick", we are more than pleased with our accomplishment to date.

For most investors, the Sharpe makes good intuitive sense because they not only hate to lose money but they often compare the returns to risk free investing. You owe it to yourself to understand and consider this measure when making investment decisions.

**Is a comfortable retirement or preservation of wealth important to you?
Want better long-term results from your investments?
Choose Us As Your Investment Manager!
Research us on the web at www.hwkfs.com**