PLAN YOUR PROSPERITY

THE ONLY RETIREMENT GUIDE YOU'LL EVER NEED STARTING NOW—WHETHER YOU'RE 22, 52 OR 82

FROM NEW YORK TIMES BESTSELLING AUTHOR

KEN FISHER

WITH LARA HOFFMANS

Contents

Acknowledgments

Chapter 1: What? Me? Retire?

- The Imagined Dichotomy
- Two Goals . . . and Some Non-Goals
- Definitions and a Pencil
- Start Immediately. Now. Right Away.
- Plan Your Prosperity

Chapter 2: My Goals Are . . . What?

- Why Is This So Hard?
- Your Investing Goals, Simply
- Potential Pitfall: Capital Preservation and Growth
- Inflation's Insidious Impact
- Three Percent, Compounded

Chapter 3: The Secret Code—Asset Allocation or Benchmark?

- Benchmark—A Road Map and Measuring Stick
- Picking a Benchmark
- The Big Decision—Asset Allocation
- Potential Pitfall: Age Doesn't Equal Asset Allocation
- Benchmark Versus Asset Allocation—What's the Difference?

Chapter 4: Time Horizon—Longer Than You Think

Potential Pitfall: Ignoring Opportunity Cost
Time Horizon—What Is It?
Time Horizon and Benchmark

Chapter 5: What's in a Return?

Growth Defined
The Past as a Guide?
Gordon Moore and Endless Innovation
Potential Pitfall: Unrealistic Expectations

Chapter 6: Getting That Cash Flow

Potential Pitfall—The All High-Dividend Portfolio
How Much Do You Need?
Monte Carlo—Not Just a Casino
Let's Get Bootstrapping

Chapter 7: Can I Get There?

How Much Do You Have?
A Savings Plan

Chapter 8: Putting It All Together

To Benchmark or Not to Benchmark
State Your Goals
Know Where You Are
Picking an Appropriate Benchmark
Finding Professional Help

Avoid Being a Fraud Victim
And You’re Off!

Appendix A: All Hail the Mighty Dow

Appendix B: Cash Flow Versus Expenses

Appendix C: Expense Categories

Appendix D: Personal Balance Sheet

About the Authors

Index

Fisher Investments Press

Fisher Investments Press brings the research, analysis and market intelligence of Fisher Investments' research team, headed by CEO and *New York Times* best-selling author Ken Fisher, to all investors. The Press covers a range of investing and market-related topics for a wide audience—from novices to enthusiasts to professionals.

Books by Ken Fisher

Markets Never Forget (But People Do)

Debunkery

How to Smell a Rat

The Ten Roads to Riches

The Only Three Questions That Still Count

100 Minds That Made the Market

The Wall Street Waltz

Super Stocks

Fisher Investments Series

Own the World by Aaron Anderson

20/20 Money by Michael Hanson

Fisher Investments On Series

Fisher Investments on Consumer Discretionary

Fisher Investments on Consumer Staples

Fisher Investments on Emerging Markets

Fisher Investments on Energy

Fisher Investments on Financials

Fisher Investments on Health Care

Fisher Investments on Industrials

Fisher Investments on Materials

Fisher Investments on Technology

Fisher Investments on Telecom

Fisher Investments on Utilities

Fisher Investments Press

Plan Your Prosperity

THE ONLY RETIREMENT GUIDE YOU'LL EVER NEED, STARTING NOW—WHETHER YOU'RE 22, 52 OR 82

Ken Fisher
with Lara Hoffmans

John Wiley & Sons, Inc.

Cover image: Thomas Perez

Cover design: Thomas Perez

Copyright © 2013 by Fisher Investments. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at http://www.wiley.com/go/permissions.

Important Disclaimers: This book reflects personal opinions, viewpoints and analyses of the authors and should not be regarded as a description of advisory services provided by Fisher Investments or performance returns of any Fisher Investments client. Fisher Investments manages its clients' accounts using a variety of investment techniques and strategies not necessarily discussed in this book. Nothing in this book constitutes investment advice or any recommendation with respect to a particular country, sector, industry, security or portfolio of securities. All information is impersonal and not tailored to the circumstances or investment needs of any specific person.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this

book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at http://booksupport.wiley.com. For more information about Wiley products, visit www.wiley.com.

Library of Congress Cataloging-in-Publication Data:

Fisher, Kenneth L.

Plan your prosperity : the only retirement guide you'll ever need, starting now, whether you're 22, 52 or 82 / Ken Fisher with Lara Hoffmans.

p. cm. — (Fisher investments press)

Includes bibliographical references and index.

ISBN 978-1-118-43106-1 (cloth); ISBN 978-1-118-51608-9 (ebk); ISBN 978-1-118-51609-6 (ebk); ISBN 978-1-118-51610-2 (ebk)

1. Retirement—Planning 2. Finance, Personal. I. Hoffmans, Lara. II. Title.

HG179.F5338 2013

332.024’014—dc23 2012031678

Acknowledgments

This book, my ninth, is a bit of a departure for me. Normally, I write on the capital markets aspect of investing—what to buy and when and why and how to avoid tactical investing errors. This is the first book I've written that focuses almost solely on the decisions that must be made *before* you get to that point—and very critical decisions they are. And because so much later investing success depends on getting those big, early decisions right, and with so many people still looking backwards at the big bear market in 2008 instead of forward at the rest of their (potentially, very long) investing time horizon, I felt now was the time to write a book on the planning side of investing.

Books are a hobby for me, not a vocation. And as the years pass, I find more of my leisure time getting appropriated by family (a wonderful thing). So my supporting cast is of utmost importance—these books could not happen without them. First, I must thank and acknowledge Lara Hoffmans, who now dedicates most of her time to writing for me and my firm. This is our sixth book together, and we've got it down like clockwork. She drafts the book from my specifications and guidelines, and she marshals the research, while I get the fun part of conceptualizing, styling and editing.

Backing up Lara while she's focusing exclusively on the books is a very talented crew of writers on my firm's Content team, including Todd Bliman, Elisabeth Dellinger, Naj Srinivas and Amanda Williams. Lara simply couldn't focus on the book without their stepping into her big shoes when needed. Amanda Williams did double duty, assisting in copy editing, but also editing the book for content. And of

course, behind every talented writer is a tolerant spouse, so I must thank Lara's husband, Aaron.

Once again, Jessica Wolfe and Danielle Lynch provided all the data and graphics, overseen by Matt Schrader, who heads our research analytics team. Doing data for one of my books is never easy, particularly since we are so exacting. Jessica and Danielle handled it all with grace.

Dave Eckerly, Fab Ornani and Molly Lienesch are my crack team who assist me in PR, web marketing and branding. Thomas Perez did the cover—the concept was his, as was the design—which I think looks pretty darn cool. And Sal Timperio did an early read-through and provided excellent feedback.

Andrew Teufel (Vice Chairman), Jeff Silk (also a Vice Chairman), Aaron Anderson and William Glaser assist me in guiding portfolios at my firm. They didn't contribute to the book, but they certainly contribute to my views of the market. Steve Triplett and Damian Ornani run the day-to-day business of my firm—which couldn't be successful without the combined efforts of those six fine gentlemen. And if my firm weren't a success, no one would give a fig what I have to say.

Many thanks to Jeff Herman, my excellent agent, who led me to John Wiley & Sons. And many thanks also to my excellent Wiley team, including Laura Walsh, our very patient editor, Judy Howarth, Sharon Polese, Nancy Rothschild, Jocelyn Cordova-Wagner and Tula Batanchiev.

Last and most important, my wife of 42 years, Sherrilyn, whose support and patience I'm eternally grateful for.

Ken Fisher

Woodside, CA

Chapter 1

What? Me? Retire?

Who needs a book on retirement investing?

Maybe you're younger—early in your career. To you, retirement investing is something you do *when* you're retired. Or close to it. Too boring to think about now. Too far away to bother. (Wrong.)

Maybe you're in retirement now or close to it. And you already have a plan. Can't be bothered. But are you sure your plan is appropriate? What's more, are you sure your plan is in fact a plan—and not just a collection of tactics?

Either way, however old you are or however far along in your career, the time to think about a retirement investing plan is now. This book isn't just for retirees or soon-to-be retirees, but **anyone at all who plans to retire ever**—whether that's next week or in three decades.

The Imagined Dichotomy

Many investors and even some professionals distinguish between *financial* planning and *retirement* planning—like they're two distinct phases, or the two are, inherently, radically different.

But in my view, this imagined dichotomy is wrong—this idea you should invest one way for a period of years and then you need a whole separate set of rules upon hitting some milestone.

For most investors, whether you're 22, 52 or 82, financial planning *is* retirement planning *is* financial planning.

Whether you're saving your first dollar or your four millionth (good for you!), you should consider the ultimate long-term purpose for your money. Which, for many investors, is to provide for them (and their spouse) in retirement and/or leave something behind for the loved ones, a beloved cause, etc.

But maybe not! Maybe this doesn't apply to you. You don't need to think about the ultimate purpose for your money now. Maybe you're heir to a billion-dollar fortune. Your future is amply covered, you don't want to think about it, you bought this book only to level your kitchen table, and your entire purpose in life is to fritter. Fine! But for most everyone else, if you're holding this book, however old you are, you should be thinking, now, about your future prosperity.

Two Goals . . . and Some Non-Goals

I have two primary and very specific goals with this book—and some specific goals this book is *not* aimed at.

First, I hope to help you stop thinking about investing in a spliced-up way—that you should invest for a number of years one way, then one day, a buzzer goes off signaling it's time to think about retirement. No! Instead, from the first time you fund an IRA or otherwise set money aside, I hope to get you thinking not just about retirement, but about investing for your whole life. And if you haven't been thinking that way all along, there's no time like the present to change.

Sure, there can be nearer-term goals not about retirement and beyond. You're young and newly married and want to save for a new home. Or you want to save to upgrade to a bigger home. Or you're saving for your kid's college or *your* college or a boat or whatever floats that boat. However,

these should all be seen and felt as near-term sidesteps on what's otherwise a lifelong pursuit.

So I want you, right now, to stop thinking about *investing* and *retirement investing* and start thinking about investing for the entirety of your life. I want you to think about making plans now that increase the odds you achieve your goals, whatever they may be. (Heck, at this point, you may not even be able to easily and clearly express what those goals are! Or know what's feasible. This book will help there, too.)

By the same token, if you start thinking, now and always, about the long future ahead (instead of chopped-up phases), that doesn't mean nothing ever changes about how you invest as you near retirement. It might! But not just because on Tuesday, you woke up, went to work, went to a good party in your honor—and on Wednesday, you were *retired.* And now there are new rules because you're *retirement investing.* No—this is selling yourself short and potentially exposing you to investing errors.

Maybe, as part of your longer-term thinking, you will need to make a change, whether big or small, at some later point. Maybe multiple changes. But when that change (or those changes) is (or are) made should be driven by your circumstances and your goals, not just a circled date on the calendar.

An investing shift—big or small—might be appropriate . . . but perhaps 7 or 10 years *before* you retire. Or 5 years after. Or 12 years after. Or . . . or . . . or . . . or. . .. But you won't know that if you think the primary driving factor is your retirement party, not your goals and the effort to increase the likelihood you reach them.

Benchmark for Better Results

My second goal is helping you choose an appropriate benchmark. If you get nothing else out of this book, I hope

you understand what a benchmark is, how important it is, and what goes into choosing an appropriate one.

Maybe right now you don't even know what a benchmark is. That's fine—we cover that much more in Chapter 3 and beyond. But for now, think of your benchmark as an essential investing lifeline. It's a road map, showing your planned route—and how to take detours when necessary. It lets you know how you're doing—if you're going too slow or even too fast or getting lost in the weeds or utterly turned around. It can help you stay disciplined (an incredibly important yet often overlooked facet of successful investing). Overall, the benchmark, picked appropriately, can increase the odds you achieve your long-term goals.

The first operative word being *appropriately.*

Far too many investors invest without a benchmark at all—never mind an appropriate one. They effectively stick their thumbs in the air, hitchhiking along with whatever tactics suit their fancy at a point in time. What's worse, they may not even realize they're doing that! They may assume they've got a rock-solid plan that makes good and smart sense—but if you don't have a benchmark (and if you don't know what a benchmark *is*, you don't have one), the odds increase you may be meandering. And meandering is a bad path to prosperity.

It can happen! You can stumble into a portfolio that can provide the kind of life you need down the road through luck (sometimes known as *dumb luck*—and in effect, the same thing). But if given the choice between dumb luck and smart planning, my guess is most folks would opt for the smart planning.

And the benchmark being appropriate *for you* is key. If your goal is to drive from New York City to San Francisco, a map of Düsseldorf won't help much. A map of the US Eastern Seaboard is better but still falls short. You need a

map that consistently shows the way and highlights the "do not go" areas. A good benchmark can do that.

Second operative words: *increase the odds.*

I say that (or some variation) throughout the book—the aim is to increase the odds you reach your goals. Note I didn't (and won't) say, "The aim is to definitively get you to your goal—I promise." Why? This is a book on investing. Investing in anything requires some risk—what type (there are myriad) and how much depend on your unique goals and circumstances.

Plus, no one can guarantee you anything. US Treasurys are guaranteed in the sense they're backed by the full faith and credit of the US government, and so long as the US government doesn't go belly up, you *will* get your principal back, plus interest. (And no, I'm not one of those who thinks the US is teetering on a precipice. You need a different sort of book for that. Or a therapist.) But you *can still lose money* investing in Treasurys if you don't hold them to maturity. (Never mind inflation's impact—which we get to later.)

No one can guarantee you reach your goals. Not even you can. First, investing involves the risk of loss. Can't escape it. You could bury cash in your backyard and avoid all *volatility* risk—but you're still fully exposed to *inflation* risk. Which means having to earn and save a lot more, and/or downgrading your future cash needs and/or not minding your purchasing power being eroded over time. (More in Chapter 4.)

That's the investing side, but there is also tremendous room for your brain to go haywire. If you have wildly unrealistic goals (e.g., "I want my money to double every year!" or, "I want market-like returns but don't want to ever experience downside!"), that can decrease the odds you reach them. If you have a great plan and a sound strategy and an appropriate benchmark, but not the fortitude to stay