DISTILLING EVERYDAY NOISE
INTO CLEAR INVESTMENT SIGNALS
FOR BETTER RETURNS

COCKTAIL INVESTING

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Distilling Everyday Noise into Clear Investment Signals for Better Returns

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I'd like to dedicate this book to my family and friends that have been so helpful and supportive on my journey, as well as to all the fledgling investors that are just getting started on their investing path.

– Chris

To Marco, Cat, Emmy, Kimberly, Bill, Sara, Tom, Sheila, Jordan, Sharron, Karen, Jaime, and Mom for helping me laugh, maintaining my sanity, and pouring the occasional vino when it was needed most. Not only do you all inspire me to aim higher every day, but your love makes the joys of life all the sweeter and the struggles easier to bear.

– Lenore

Contents

Preface

A man must defend his home, his wife, his children and his martini.
– Jackie Gleason

Happiness is … finding two olives in your martini when you're hungry.
– Johnny Carson

My focus sharpened as I ascended the steps to the presentation platform. I may have some generous delusions about myself, but I am pretty clear that seeing me trip backside-over-tea-kettle in a skirt and stilettos when trying to mount the all-of-five steps up to the stage where the other panelists were sitting would not exactly give the audience the image of a highly competent woman I'd like to convey.

Hating to be the first to speak, I always try to sit farthest from the moderator in the hope that he or she will get to me later on and give me a chance to come up with something funny or memorable in response to what another panelist has stated with total conviction: my inner–Conference Katniss gets competitive. Damn it, though, some guy with a cocksure grin had taken the spot I covet. I grumbled internally and took the seat next to him. Nonchalant chit-chat ensued, as usual, between the panelists as we waited for the presentation hall to fill. In my Katniss-mind, this lull before the action is akin to that of the Roman gladiators prior to their entrance into the Coliseum. With my usual level of pre–public speaking adrenaline flowing, the reality that the average fitness level of those of us on stage was somewhere around that of *The Big Bang Theory*'s Sheldon Cooper was irrelevant.

Finally, the hall was sufficiently full and the moderator asked us to take our seats on stage. He grabbed his microphone and introduced us Investment Gladiators with a *Cliff's Notes* version of our respective resumes, giving each of us the opportunity to try and smile wisely to the crowd and offer appropriate glances of modesty … as if we hadn't sent those bios in ourselves. A bit of throat clearing and water sipping followed. I haven't yet met a speaker at one of these things who isn't secretly at least a little nervous that when he or she first opens their mouth, their voice will come out sounding squeaky like a boy in the tumult of pre-pubescence.

The moderator thankfully began with the gentleman seated immediately to his left, who launched into a clearly well-practiced diatribe, painfully monotone, on his favorite asset class, with a series of statistics and proclamations, clearly intended to exact awe as to his technical prowess and engender confidence in his ability to read through all that analysis to find the "truth." All of us on that stage seek to be useful truth tellers, financial diviners in suits, toting iPads.

As the first panelist gets momentum going in his spiel, Mr. Seat Stealer to my left slid an innocuous sheet of paper with some rough scrawls on it toward me. I glanced down, as I nodded my head, hopefully sagely, along with the speaker's various points. The scratchy text read, "Has he taken a single breath yet?" I barely managed to suppress an entirely undignified giggle, face flushing a telltale pink as I was painfully aware of the some thousand or so individual investors watching us all on stage. Those in the audience giving us their time are each hoping that if they pay attention and focus hard enough, they'll learn "The Secret" that will give them the ability to invest safely and successfully—or at least learn a few "hot" stock tips that they can "ride to big profits." Who doesn't want that? They deserved my utmost attention and A-level effort, but I'm a sucker for an irreverent sense of humor, and speaker #1's droning was like a high-powered Unisom.

With brows furrowed in an attempt to appear as though I was taking thoughtful notes, I quickly jotted back, "My yawn is just a silent scream for coffee." SS stifles a laugh and writes back, "So I've been wondering what my dogs have named me." I responded with, "I have a suspicion that my inner child is never moving out." So began a friendship and eventually a partnership that has spanned years, continents, oceans, and eventually led to the writing of this book.

The truth about investing and the markets is that no one knows where the market is going to close today, this week, this month, or this year. No one. People can come up with all kinds of fancy models that arguably have some value, but the truth is it is a guess. It may be a well-thought-out guess, an educated guess, a mathematically beautiful and sound guess, but at the end of the day it is still a guess. When you run across anyone who tells you differently, be careful. Also, be careful of the talking heads on TV who speak with such confidence about the direction of the market or a particular company within a specific time frame. There are some talking heads that are more than helpful, offering up helpful insights and data points, but there are also those that gloss over details and focus on less than helpful and in some cases outdated indicators. Look below the headline and do a little research of your own. It isn't nearly as tough as it sounds, and we can show how fun it really can be! Also realize the more supporting data you have, the more clear the investing picture will be and the better off you are going to be.

The heart of *Cocktail Investing* recognizes the intersection of several powerful forces—economics, demographics, psychographics, technology, policy, and more we will discuss—that, when combined, give way to a powerful force that shifts the *what, where*, and *how* people and businesses go about their daily activities. Much like a tailwind that pushes a plane faster across the United States or the Atlantic Ocean, these shifting forces can propel a company's business or slow it down dramatically if it is ill-prepared to deal with the changes it faces, much like a headwind. The great thing about these trends is that they are often evident in things you observe every day and arise in conversations you have with friends over cocktails—you just need to recognize them.

We wrote this book to give you a lens through which you will be able to clearly see the actionable, observable, and recognizable trends that surround you every day to help you build a profitable portfolio for the long run. Unlike most every other book on investing, though, this book is written the way most people like to learn, with stories that you will find (we hope) not only informative but entertaining and relatable.

We will give you **a process that will allow you to successfully build and maintain a portfolio** and avoid the all-too-common errors caused by emotional investing. Thinking like a successful investor will become as routine as tying your shoes, and before you know it, you'll be walking through the mall making mental notes of the must-have items and the hot retailer, all without stepping foot inside a store.

We also wrote this book in such a way as to **allow you to quickly get to the heart of the material**, avoiding the majority of the related stories, although you're missing out on some serious entertainment, but we might be slightly biased here. If you want to read just the bones, avoid the areas in gray. Don't worry, we only have one shade of gray in this book. We've also written up chapter summaries that highlight the key points and finish every chapter with a Bottom Line section to call out key concepts.

We will talk about how to find specific investments, but we will not talk about theories on what combinations of investments you ought to have in your portfolio, as that is highly dependent on each individual's circumstance. That being said, here are a few **good rules of thumb** to keep in mind as you build an investment portfolio:

- Your portfolio should **never have more than 5 percent invested in one security** (e.g., a stock, bond, mutual fund, or ETF). You can give yourself a little more room if you are dealing with a widely diversified mutual fund or ETF, meaning one that holds a lot of individual securities. In practice, this usually means that you'll want to buy less than 5 percent of any one security; otherwise, if it goes up disproportionately relative to the rest of your portfolio, you'll need to sell some more quickly than would likely be prudent given the current tax code's treatment of long-term gains versus short-term gains.
- Before you start buying securities for your portfolio, decide **how much cash you need to keep on hand**. You should have at least three months' worth of your typical living expenses on hand in case of an emergency. If your primary source of income is unpredictable and/or volatile, you should have more. You've probably heard people

talk about need for liquidity, a term that is widely bandied about and often misunderstood. We'll talk more about what it means, how to figure out just how liquid a security may be, and why you care.

- Once you've identified a security you want to add into your portfolio, you need to decide **if you should buy then and there or hold off doing so. If it's time to buy that security, how should you do so, up to what price should you buy, at what price would you back up the truck and buy more, and later when the time is right, how should you sell it?** We'll cover how these decisions can be even more important than deciding what to buy.
- Finally, when it comes to your portfolio, **be cold-blooded**. Fall in love with your partner, a song, a good book, a gorgeous sunset, or luscious Bordeaux, but never, ever with one of your investment picks. We'll talk about ways to stay cool as a cucumber, even when the markets get wobbly.

So without further ado, let's talk about one of the most emotionally charged words in the world—*Money*.

Acknowledgments

From Chris: Sitting down to put fingers to keyboard and write the volume you have before you would not have been possible were it not for the education, learnings, and conversations that helped develop the thematic way I look at the world. As you might imagine, the list is far from short, but also like any list, there are several central figures worth noting. These include David Snyder, Dr. Phil Lane, and Dr. Ben Fine, who had an influential hand from the very beginning; friends and compatriots Keith Bliss, Mike Canevaro, Brian Vosburgh, and Chris Broussard; Dr. Bernard McSherry, who wrangled me into the classroom and afforded me the opportunity to stun graduate and undergraduate students alike with my desk walking; A.J. Rice, without whom my time on the radio and elsewhere with people such as John McCaslin, Matt Ray, Chris Salcedo, Melanie Morgan, and others would never have happened; and Stephanie Link, who welcomed me to The Street and allowed me to work with folks like Bob Lang, Kamal Khan, Paul Curcio, and many other wonderful people, including Jim Cramer, who has been nothing but encouraging and enthusiastic as my role at The Street has grown over the years.

From Lenore: This book would not have been possible without the insights gained from conversations with some of the most truly spectacular economic, investing, and scientific minds I've had the pleasure of getting to know. I'd specifically like to thank Raoul Pal, not only for sharing your brilliance, but for assuring me that I had something worthwhile to say in my moments of greatest frustration; Grant Williams for your uniquely humorous insights; Richard Rahn for everything as there is just too much to list; Dan Mitchell for showing me how to make even tax policy positively riveting to your audience; Tom Palmer for enlightening me in countless ways; David Abner for getting me started in this direction; Peter Whybrow for showing me how to make even the most complex understandable and entertaining; Ed Crane, you are an endless inspiration; Alessandro Dusi, what would I do without you? Michael Cannon, you've taught me to never give up. Finally, thank you to Eric Spinato for helping me evolve from those first truly cringe-worthy television appearances, which helped open the doors that led to the eventual writing of this book.

Chapter 1

Money

When I was young I thought that money was the most important thing in life; now that I am old I know that it is.

– Oscar Wilde

Wealth is the ability to fully experience life.

– Henry David Thoreau

A feast is made for laughter, and wine maketh merry: but money answereth all things.

– King James Bible

C*ash, bread, dough, greenbacks, loot, moola, scratch, wampum, soldi, dinero, l'argent, geld, penge, dinheiro …*

No matter what language, *money* is a simple word that, if you aren't careful, can cause you a lot of problems. If not you, then chances are, a family member or a close friend has struggled with it.

It's a word that can make people very uncomfortable. How many times have you been in a group when everyone gets that awkward no-eye-contact nervousness because someone (*gasp*) mentioned "money"?

Some abhor it as a dirty word; some worship it as the purpose of life. For one of your authors it means the latest Apple tech joy, climbing an adventure course, adding to his Under Armour "collection," or streaming the latest Marvel series or other must-watch program on Netflix or Amazon Prime as he rockets to New Jersey from just outside of Washington, D.C., while for your other it sure helps with her obsessions: travel, power tools (working on those Bob Vila skills), the latest new tech toy, stilettos, wine, and photography equipment (hoping her talent will eventually catch up with the equipment).

Some have a lot of it and some purposefully eschew it, but the bottom line—and that is what our book is all about—is we *all* need it.

Whether it's to put food on the table, buy the latest whiz-bang device, which neither one of us can resist, or clothes for that soon-to-be-tween who is growing like a cornstalk on steroids, or simply to buy a great bottle of wine to celebrate that it's Tuesday and life is good, let alone to save for your golden years or to pay down the debt that's already been rung up, money is required both for the necessities and for having options: the "need to haves" and "want to haves."

Without it, you may find yourself forced into a situation you would desperately like to avoid, like Bob.

Have you met Bob?

On an unusually chilly day in San Diego, Lenore was rushing into her local UPS store in Del Mar when she essentially body-slammed into a rather strikingly handsome (her description), silver-haired gentleman who was rushing out with equal ferocity, sporting a scowl that would have made even the Dalai Lama take a step back. A shroud of sadness and anger seemed to emanate from his very being.

She apologized profusely to him for her clumsiness, something for which she has had a great deal of practice, to which he responded with an eloquent, "*Harumph*." Undaunted, Lenore was determined to get a smile out of this guy.

"After making you drop so many things, the least I could do is buy you a cup of coffee or tea?"

Silver-hair looked straight at Lenore like she was speaking Klingon, followed by a long, awkward silence. Her stubborn streak kicked in and she summoned up her best smile for him, trying to channel a Julia Roberts grin. He either decided he didn't have the energy to fight her or was so thrown he couldn't come up with something to help him escape and mumbled what sounded vaguely like "OK."

"Oh good! I could clearly use a few minutes to slow down. Thank you," she said, and off they walked to the Starbucks next door. More precisely, Lenore walked and Silver-hair, whose name turned out to be Bob, followed begrudgingly.

After an excruciatingly awkward five minutes of ordering and making feeble attempts at smalltalk while they waited for their white-and-green paper cups of warm magic to appear on the counter, they took a seat at a little table by the window. Lenore apologized again for running into him and told him how she was rushing around because she was flying back to Italy the following week, explaining how she ended up living a life on two continents after her father died, then getting a divorce and very much needing to escape the sadness of it all. Normally, Lenore never shares that level of personal detail with someone she has just met, but for some reason the gift of her Irish genes took over and her mouth took on a life of its own.

Eventually, after a torrential river of words flowed from her mouth, the need to take a breath kicked in. Wondering if perhaps she had overshared, Lenore took a long sip of piping hot pumpkin latte (seriously, Starbucks, why not offer it *all* year?).

Without warning, frustrated words started awkwardly tumbling out of Bob's mouth, and Lenore learned that his wife, Beth, had recently passed away. The cost of her medical care had destroyed much of their life's savings, which Bob had a hard time understanding, as he thought he had been so careful that he'd not even ventured near the stock market. On top of that, two of his three children were not even speaking to him because he had started dating his neighbor, Madeleine. Lenore got the distinct impression that Bob's wife hadn't particularly cared for Madeleine, which must have made for some painful family get-togethers.

As he continued to talk, Bob jumped back and forth between expressing frustration over his financial affairs, the anguish he felt now that he was having to move in with his daughter, Sophia, who'd recently gone through a divorce herself, the delight at having found a woman who could make him laugh despite all his troubles and sadness, and anger at his other children for resenting his new relationship. When he finished, he stared down at his cup, fidgeting nervously with its plastic lid.

Lenore could see he had the same, "Have I overshared?" look on his face, so she told him about how after her father's death, his side of the family had imploded with relationships permanently damaged at a time when she thought the family would have and should have been closer than ever.

Sensing his troubles, Lenore offered, "My firm does investment management for families, so maybe we could help you sort through your finances and figure out where to go from here. It would help me feel better about having nearly knocked you into that wall!"

They set a date and Bob suggested that perhaps Lenore could talk to his daughter, Sophia, who was struggling with pretty much everything as her divorce was finalizing. As they finished their respective beverages, Lenore suggested that Bob have Sophia call her, and they went their separate ways.

In our collective experience, we've seen that money can be a lot like love. It can be heaven, or it can be hell.

While we could ask you about money, odds are you would have a pretty good idea of just what that stuff in your wallet is and how it's used. Maybe not the history and legacy of it and you may not be fine-tuned on the inner workings of monetary policy, but when it comes to the functional use we're pretty sure you've figured it out. You did buy this book after all.

We think a much better question to ask you is, "Do you think you have enough money … enough saved … enough invested for what is to come? If you think you do, how do you know?"

Savings and Debt

Bob thought he'd been exceptionally responsible. He'd put funds away every month for most of his adult life and proudly avoided investing in the stock market, believing his friends who did were essentially gambling. He's not alone in that. In Italy, the older generations do not even refer to investing in stock and bonds with the proper translation, "*investire in borsa,*" but rather more often use the term, "*giocare in borsa,*" which literally means "gambling on the stock exchange."

Even if you think you have it covered, the harsh reality is that many of us, like Bob, simply may not be as prepared as we think. Even for those who have been saving for a long time and are ahead of the 31 percent of U.S. adults who have no savings or pension plan,[1] it may not be enough. According to Bankrate.com, even 46 percent of the highest-income households ($75,000+ per year) and 52 percent of college graduates lack enough savings to cover a $500 car repair or $1,000 emergency room visit.[2] Did you know the cost of raising a child through the age of 18 in either the United States or Canada is more than $240,000?!? In the United Kingdom, that number is $342,000.[3] A recent report by AMP and the National Centre for Social and Economic Modeling in Australia found that the cost of raising two children to the age of 21 in that country rose more than 50 percent between 2007 and 2013 is now about $720,000. No wonder people are having fewer and fewer kids in the Western world!

And it can be more, a lot more. Those are only the averages!

We'd point out that excludes the cost of college, let alone if they get into an Ivy League! According to the College Board, a "moderate" college budget for an in-state public college for the 2013–2014 academic year averaged $22,826, while a moderate budget at a private college averaged $44,750. Some quick math puts that four-year cost between $91,000 and $180,000, but that's just the education part—room, board, and other items are extra. That's a pretty penny if you only have one child; if you have two or more children, it could easily cost over $1 million to raise them into their early twenties.

Trust us, you are not alone in looking at that cost.

According to the Consumer Financial Protection Bureau (CFPB), more than 40 million Americans are working to repay more than $1.2 trillion in outstanding student loan debt, and we're sorry to say the conventional wisdom on this is wrong in the United States. What's the conventional wisdom, you ask? Well, the herd (we'll have more on who that is and why they tend to miss what's really going on later) view is that all these people struggling to pay off student loans are young people, primarily recent college graduates.

They're not.

A report by the New York Federal Reserve showed that in 2012, the last year for which there are records, 4.7 million people who owe money on student loans are between the ages of 50 and 59. Perhaps more of a surprise—2.2 million are age 60 and older!

Is it hard to fathom then that 40 percent of Americans past the age of 45 said they had thought "only a little" or "not at all" about financial planning for retirement? No—lest you think we are making it up, that was revealed in a 2014 Federal Reserve Board study.

According to the OECD (Organization for Economic Co-Operation and Development), the ratio of household debt to income in the Eurozone has gone from 77.2 percent in 2002 to 97 percent in 2013. In Italy, this ratio has risen from 37.7 percent to 65.8 percent in 2012; but that isn't nearly as bad as in Spain where debt has gone from 79.3 percent of household income to 122.9 percent by 2012. In the United States, in 2000 this same ratio was about 90 percent. It peaked at 133.6 percent in the fourth quarter of 2007 (no surprise, given all those crazy 0-percent-down mortgages being handed out left and right, coupled with the home equity credit lines that became ATMs for many) but has improved to now be about 108 percent by 2015.

For argument's sake, let's say that you've been a diligent person and you're socking some of your after-tax dollars every month as best you can, to chip away at that looming cost.

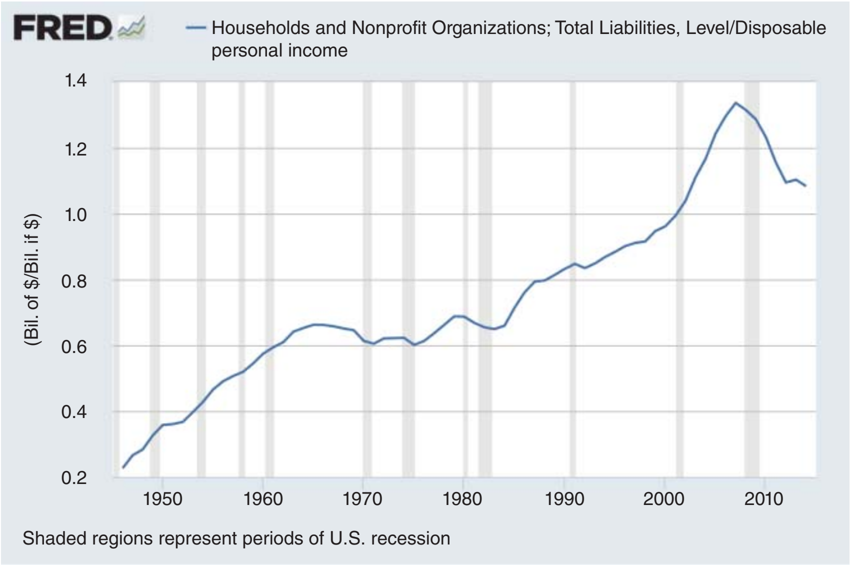

Figure 1.1 Total liabilities to disposable income* ratio for households and non-profit organizations

*Disposable personal income is total personal income less personal income taxes.

SOURCE: St. Louis Federal Reserve

If at this point you understand that you will need to invest to ensure you meet your financial goals, you can skip to Chapter 2; just be sure to check the summary located at the end of this chapter.

State of Savings in the United States

If you are a data lover like us and want to know more about just how startlingly dire the situation may become, read on. We really geek out on the stats in this next section.

Congratulations!

We say that because saving money is a good thing, despite what the elected officials in Washington, D.C., would have you believe in our consumer-driven economy. How often have you heard how we need to get consumers spending? It's as if the key to a successful economy is to spend every dime you make, and then borrow some more! As thrilled as we are that you are taking steps forward, the reality is if that's all you are doing, then you have a much tougher road ahead of you—and one you may not see the end of.

There are two other big concerns that most people face. One is being able to afford the level of care required as you get older. According to a Harris Poll, nearly three quarters (74 percent) of respondents said they worry about having enough money to retire and two-thirds (67 percent) of respondents said they worry about being able to afford unexpected healthcare costs.[4] Among those who are not yet retired, 7 in 10 worry about being able to pay for their healthcare costs when they retire. And worried is exactly what the findings of Age Wave, a think tank that specializes on aging, say you should do, because out-of-pocket healthcare costs in retirement may equal $318,800 if retirement lasts 30 years; $220,600 for 25 years; $146,400 for 20 years; $91,200 for 15 years; $50,900 for 10 years. And in case you were wondering, these estimates do not include the cost of long-term care.

And that brings us to the next big concern—the really big concern—having enough saved and invested to actually retire. Three-quarters of U.S. adults who are not yet retired say they worry about having enough money to retire, and 70 percent say planning for retirement is a key priority to them. One thing those still in the workforce are not planning to use is Social Security—only about a third say they have faith in Social Security being there when they retire. If you have such concerns, or even if you don't, we would suggest you point your web browser at USDebtClock.org to better understand the country's mounting debt and how much is attributed to entitlements such as Medicare, Medicaid, and Social Security. Perhaps Social Security will be around when you retire, but we would hate for you to be banking on that only to find out the program was significantly altered when it was your turn to collect.

Pundits say you will need 60 to 85 percent of your gross household income today to sustain the same lifestyle after you retire. A different perspective from Fidelity Investments says that, depending on factors such as your ability to save, your starting age to save, and retirement age, you'll need eight times your ending salary. Data from Sentier Research recently pegged average household income at $53,891; for reference, that is still 4.8 percent lower than it was at the start of the Great Recession in December 2007. If your ending salary was in that range, then at minimum you would need another $430,000 on top of the amount you would need to fund education needs and healthcare concerns. Odds are, however, that would not be enough given the impact of inflation, which saps the purchasing power of your saved dollars. If you are the sole breadwinner in the family, that means eight times your ending salary needs to be stretched even further—perhaps you need to be saving more than you think?

This is hardly an outrageous thought when you consider that these figures are the *averages*. Depending on your current lifestyle or the one you aspire to have, it could mean needing far more than that. For others who are earning below the median income, and per data from the Social Security Administration, roughly 50 percent of American wage earners fall into that camp, while 47 million receive food stamps and 47 million live in poverty, it means having to close an even bigger gap.

We've already mentioned inflation and how it cuts into purchasing power. Ask any retired person living on a fixed income how much beef they've been eating over the last year or two, given the more than 50 percent increase in beef prices! The same goes for the other parts of the protein complex: pork, chicken, dairy products, coffee, and more. As the standard of living improves across the globe, it means there will be more mouths looking for the same foods that you've enjoyed. Not a bad thing (do you really think others should *not* be allowed to enjoy chocolate or a nice cup of coffee in the morning?), but simple laws of supply and demand tell us that if global demand is climbing past a certain point, then supply is constrained and prices will rise. This is particularly true of the more complex proteins like beef. It takes a lot of feed to produce just one pound of beef versus the relatively smaller amounts required to produce one pound of fish.

Another easy factor to observe is that we are simply living longer lives.

If you don't see that when you are out and about in your daily lives—well we've got some data to share with you. According to a report from the Stanford Center on Longevity (SCL), in 1950 a 65-year-old man could expect to live to age 78, or an additional 13 years. By 2010, a man age 65 could expect to live to age 82, or 17 years longer. A woman age 65 in 1950 could expect to live another 15 years, to age 80, but by 2010 her life expectancy was 84.

The same report shows that the average length of retirement in 1950 was 8 years for men, increasing to 19 years by 2010. This is due to the combination of earlier retirement ages and longer life expectancies. (There are no comparable figures for women, since women didn't enter the paid workforce in substantial numbers until the 1970s.)

Another SCL report shows that the percentage of older employees in the workforce is back on the upswing. In 1950, 45 percent of men age 65 and older were still working. This percentage declined to about 15 percent by 1990, but increased slowly to about 22 percent by 2010. (It's worth noting that this figure encompasses all men over age 65, including men in their 80s and 90s. The percentages of men working in their late 60s and early 70s are much higher.)

Another important difference between then and now is that in 1950, retirement hadn't yet been glamorized by the media as the "golden years," an extended period of travel and recreation. Most retirees didn't retire to pursue their hobbies and interests—rather, they stopped working because they were unable to continue. After retirement, they lived simply and modestly in the communities where they had worked and lived all their lives. And it bears repeating, the average length of retirement today is far longer than it was several years ago. The rise in the standards of living has been a blessing, of course, but it also has been accompanied by a rise in expectations—expectations that require a lot more funds to fulfill than in years past.

According to the Administration on Aging (yes, there is such an institution, and it can be found at www.aoa.gov), by the end of 2009 (that latest year for which data are available), persons 65 years or older numbered 39.6 million, roughly 13 percent of the U.S. population, or one in every eight Americans. By 2030, the AOA estimates there will be about 72.1 million older persons, more than twice the number in 2000. Keep in mind, the current domestic population according to the U.S. Census is 319 million people and some simple math tells us that as the number of retirees more than doubles from the current 48 million, we will be facing a retirement crisis.

Living longer lives is not a new concept. When we trace back to 1900, we find the percentage of Americans 65+ has more than tripled (from 4.1 percent in 1900 to 12.9 percent by 2009). In looking at the data, it becomes clear that it's not just more people who are

65+, but the population cohort itself is living longer. In 2008, the 65–74 age group (20.8 million) was 9.5 times larger than in 1900, while the 75–84 group (13.1 million) was 17 times larger and the 85+ group (5.6 million) was 46 times larger. This really put the data into perspective for us: A child born in 2007 could expect to live 77.9 years, about 30 years longer than a child born in 1900.

As a result of increasing longevity and the decline in the average number of children people are having, the domestic population is skewing older. That pace began to accelerate even further in 2011, when the Baby Boomer generation (those born between January 1, 1946, and December 31, 1964) started turning 65. Beginning January 1, 2011, every single day more than 10,000 Baby Boomers will reach the age of 65. That is going to keep happening every single day for the next 19 years and will add roughly 70 million to the 65+ category.

But what if you're a few decades or more away from entering your Golden Years and are a member of Generation X?

If you were born between the early 1960s and the early 1980s, then you're probably between the ages of 33 and 53 years old. Even more likely, between 2007 and 2010, you saw a drop in your wealth coming out of the Great Recession. Perhaps you lost your job for a while or thought you were going to … maybe you were one of the lucky ones who didn't have those concerns, but if you did, it meant falling behind in your savings and investing efforts. Unlike those at or near the door of retirement, Gen-Xers as well as Millennials (if you were born between the early 1980s and early 2000s) have time on their side when it comes to saving and investing for their retirement and other life goals.

Despite the time factor that affords the power of compound investing, more Millennials have opted to choose cash as their favorite long-term investment than any other age group, according to a new Bankrate.com. Per that report, 39 percent of Millennials surveyed said cash was their preferred way to invest money they don't need for at least 10 years—that was three times the number who picked the stock market.

The eschewing of the stock market by Millennials is likely to prove a costly mistake and raises the question as to where and how you are building your nest egg. If you are a diligent saver and have been putting money in the bank, the returns you are getting given the low interest rate environment won't help you much. **Simply saving in a bank account is not going to get you where you need to be for an eventual retirement.** Over the last few years, the Federal Reserve's easy money polices and artificially low interest rates have left you earning next to nothing in your savings accounts or with CDs. The Fed has begun raising interest rates again, but even if we get back to average interest rates on savings accounts and CDs, they will barely put a dent in the amount you'll need over the course of your life.

The Rules Have Changed

Consider that if you put away $250 per month over a period of 30 years in a savings account, you will probably end up with something around $145,000. If you could only sock that much away each month for a period of 20 years, you would have more like $82,000. As you can imagine, if you only had 10 years of saving like that, you would have even far less.

How would you feel upon realizing that you didn't prepare sufficiently—and by that we mean save and invest properly and you had to alter your lifestyle when you finally retire? Think that's far-fetched? A survey conducted by The American Association of Retired People (AARP) found that 60 percent of New Yorkers over the age of 50 said they were likely to go somewhere else in retirement. The same survey found 40 percent worried about paying rent or mortgages, 56 percent were extremely or very worried about paying property taxes, 51 percent worried about utility bills and most were looking for improvements in healthcare, housing, transportation, and jobs for older residents.

The bottom line is you need to grow your savings in order to meet the money needs you will have. In our view, one of the best if not the best way to achieve this is through investing in the stock market, but we need to warn you that the rules of investing have changed.

Although 2013 was a banner year for the stock market with the S&P 500 up more than 32 percent and 2014 saw the index rise another 11.4 percent, a longer view shows that the 15-year total return as of October 31, 2015, for the S&P 500 was less than 3 percent (see Figure 1.2).