

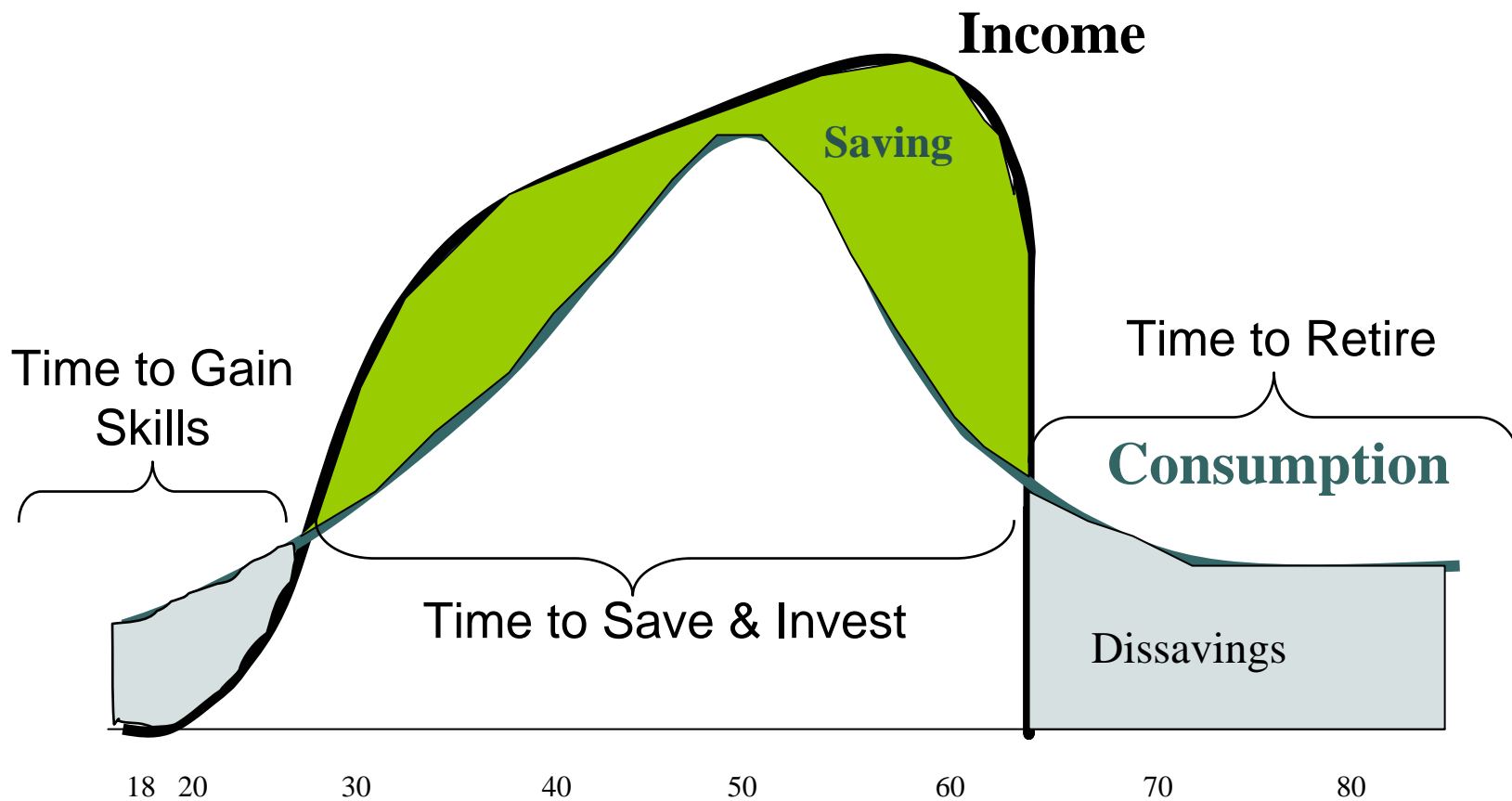
*Plan to Retire:
Early & Wisely!*

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a.k.a. **“Dr. N.”**

Life Cycle Planning

- As we grow, we gain and grow our most important asset: **Our Human Capital!**
 - Combination of energy, youth, experience, ...
- As we go through life, we also consume to survive, enjoy and enhance our life experiences
 - Maslow's pyramid of needs is true but costly

Life Cycle



Consumption Smoothing

- Early in life borrow to pay for needs:
 - Student loans
 - Car loans
 - Credit cards
 - Mortgage loans
- Pay back the debt later in life
- **Warning: You can get overwhelmed by debt, so be aware of excess consumption!**

Planning for Future: Cost

- Immediate Expenditures:
 - Start a family ➡ Car & House (furnished)!
 - Growing family ➡ Bigger House & Mouths
 - Adolescents ➡ Schooling
- Long-term Expenditures:
 - Aging ➡ Fixed Income & Maintenance!
 - Passing on ➡ Estate & Heirs
- Emergencies
 - Sickness, helping hand, job loss, etc.

Immediate Costs

- **Goal: Build the downpayments**
- *Solution:*
 - *Money Market Accounts*
 - *Deposit accounts*
- **Goal: Save for Kids' College**
- *Solution:*
 - *Invest in relatively safe instruments:*
 - *Treasury bonds or high-grade corporate bonds*
 - *Large-income stocks*
 - *Products like 529 College Saving Accounts*

Long-term Costs

- **Goal: Retire Happily**
- Solution:
 - Invest Frequently and Abundantly
 - Growth Stocks; International Stocks; High yield (low grade) corporate bonds; Real estate vehicles; Commodities
 - Adjust risk based on stages of your life-cycle
 - Blue-chip Stocks; Multinational Stocks; High grade (Treasury or Muni) bonds

How Much Do You Need?

- Retire in 30 years
- Expect to live forever!
- Need \$100,000 annually to live happily
 - This is like having \$42,000 annual salary today
- You should set aside each month
 - \$580 if you invest in the stock market
 - \$5500 if you invested in Treasury bill

When Can I Retire?

- Whenever your future income from investments can support your desired level of expenditures
- Depending on style and frequency of investments, you may be able to retire even before age 50!
- Few possible fast growing alternatives:
 - Small value stocks
 - Hot sectors if you get in early
 - International and emerging markets
 - Entrepreneurial activities, start-ups, etc.

Investment Channels

- IRA (Individual Retirement Accounts):
 - Traditional: tax deduction + tax deferral
 - Roth: no tax deduction but no tax on gains!
- 401K (Defined Contribution Plans):
 - Personal contributions
 - Matching contributions
- ESOP (Employee Stock Ownership Program)
 - Restricted stocks and stock options

Investment Vehicles

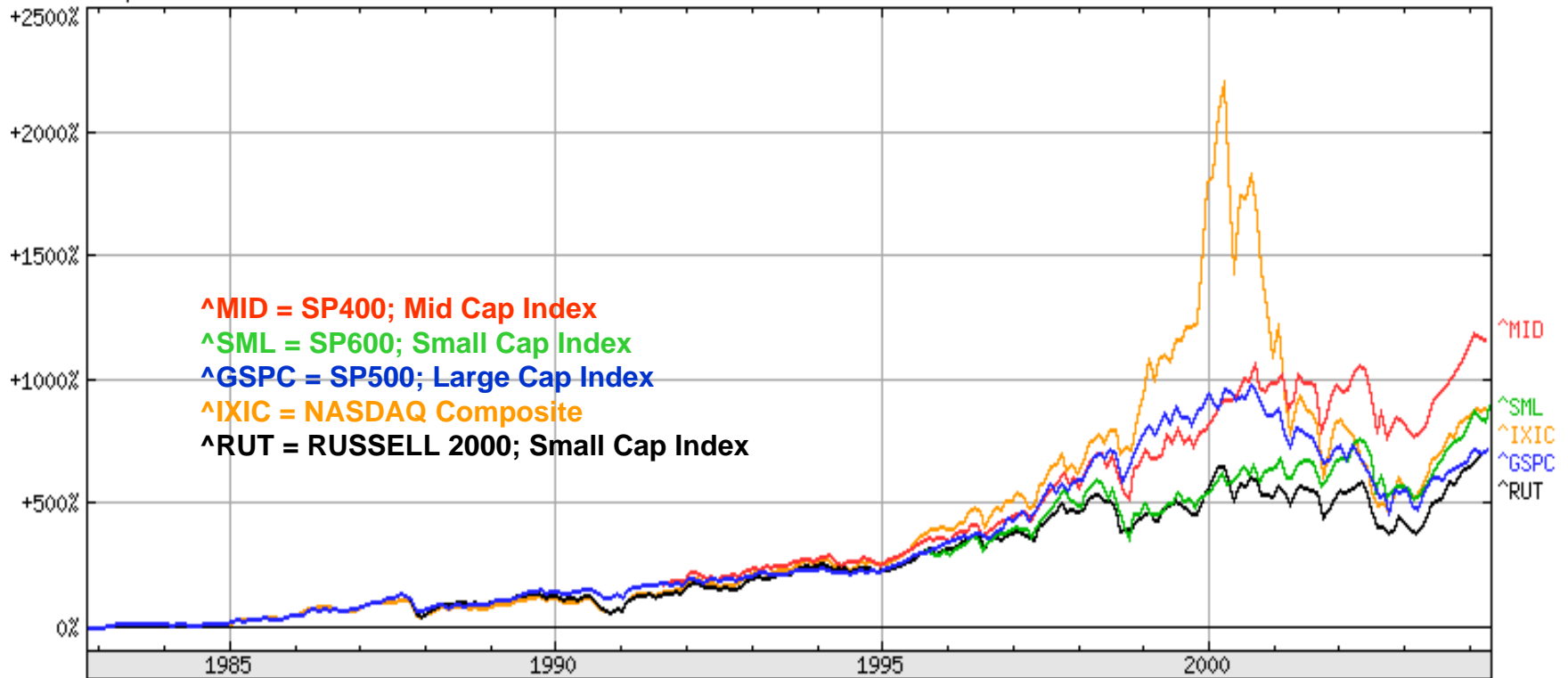
- Mutual Funds:
 - Actively managed
 - Passive, or index funds
 - Exchange Traded Funds
- Stocks
- Bonds
- REITs (real estate investment trusts)
- Commodities
- Hedge Funds

Mutual Funds

- Professionally-Managed Portfolios
- Actively-Managed Funds:
 - Expenses, fees, etc. (see [Morningstar](#))
- Index funds: mimic market moves!
 - Low (no) expense and fees
 - End of the day trading
- ETFs (Exchange Traded Funds)
 - Trade an Index like a stock

Stock Indexes

NAS/NMS COMPOSITE (NASDAQ STOCK
as of 23-Apr-2004

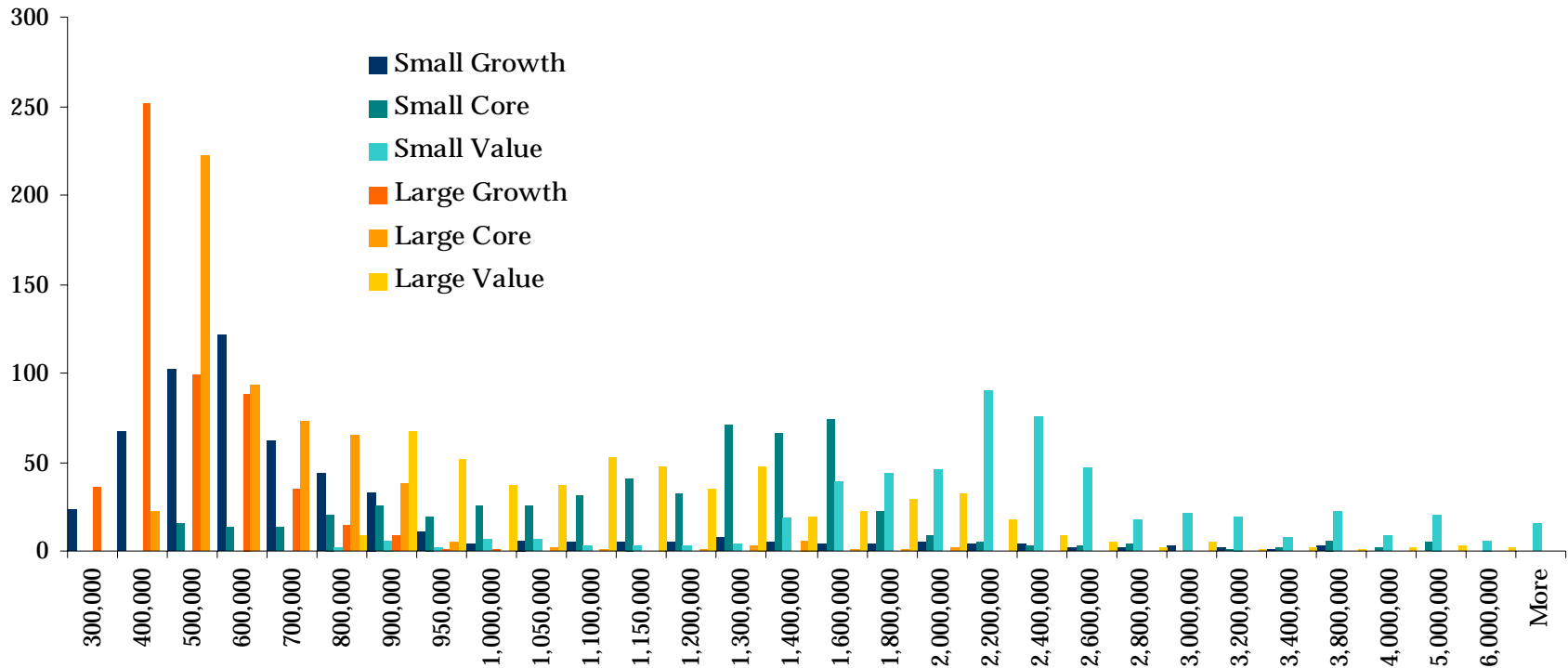


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Frequent Investing: \$150/Month for 30 years

**Investing \$150 a Month in Different Indexes:
Evidence from 1926 - 2002 Data**



Stocks

- Valuation Styles:
 - Value vs. Growth; Large vs. Small Cap.
- Stock Picking
 - Fundamental Analysis
 - Technical Analysis
- Portfolio Construction
 - Asset Allocation
 - Sector Rotation

Bonds

- Treasury Instruments
 - T-bill, T-note, T-bond auctioned off often!
- CDs and Commercial Papers
- Corporate Bonds
 - Rating showed the perceived quality
- Muni Bonds
 - Tax exempt; good for high tax bracket

Other Investment Vehicles

- **REITs**
 - Built leverage
 - Commercial, residential, specialty
- **Commodities**
 - Gold; anti-inflation & hedge against stocks
 - Raw material: iron, copper, etc.
 - Oil, gas, and coal