

# *The Quarterly Report*

A QUARTERLY PUBLICATION OF IRON CAPITAL ADVISORS | Fall Issue | October 2014

## The Retirement Myth

INSIDE STORY

*“God, grant that I may  
never live to be useless!”*

*- John Wesley*



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# The Retirement Myth



**I**n 1913 a great flood hit the state of Indiana. It started on March 21, which happened to be Good Friday. A windstorm hit the state followed two days later, on Easter morning, by rain. It rained for three days, causing the Wabash River to rise and flood by Tuesday morning March 25. The water continued to rise for two more days, completely flooding the town of Logansport and leaving many of the town's residents stranded and fearing for their lives.

At approximately midnight on March 25 the mayor of Logansport sent out a distress call to General Leigh R. Gignilliat at nearby Culver Military Academy boarding school. Culver, which is located on a large lake, had just a few years earlier launched a summer Naval School where summer campers could learn to operate cutter boats. Culver's boats were in dry dock for the winter. Each boat was twenty-eight feet long and eight feet wide and weighed approximately 3,000 pounds.

Gignilliat woke the corps of cadets and they started loading the cutters onto rail cars. By 3:00 a.m. on March 26 the boats were loaded and the cadets jumped on the train and headed to Logansport. They went as far as the train could go, unloaded the boats and began their rescue mission. Over the next two days those cadets saved the lives of more than 1,500 residents stranded by the floodwaters.

The following year, in 1914, the town of Logansport commissioned and donated a bronze and brick memorial gate in appreciation for what

those cadets had done. Logansport Gate, as it is known today, now forms the back gate to Culver's campus.

Seventy years later a young man named Chuck Osborne matriculated at Culver and was required to memorize that story, among others. It is a great story, and I still get emotional when I retell it. One can only imagine what it was like for those teenage boys to come to the rescue of so many. For Culver students then and now the story becomes ours, as it was a seminal event that helped shape the institution and its mission to create leaders who learn to lead by doing, or should

I say lead from in front. That story helps to bring purpose and meaning to being part of the Culver institution.

We all have those kinds of stories. They may not involve saving lives (trust me I have never done anything that heroic), but they define our life stories. The groups we belong to, the people with whom we have shared fellowship, the places we have lived and things we have witnessed: These things bring meaning to our existence and most of the time they happen when we are doing something as part of a defined group. It could be our high school, like the story I shared, or it could be family, church, etc. However, for most of us we spend the majority of our lives, and therefore our stories, doing something we usually think of as work.

From the time we are in our early twenties until today, we have spent most of our time working. We are often defined by our work. "This is Chuck he manages money," or "This is Susan, she is a lawyer," or "This is Bob, he is the captain of a tug boat," or maybe, "This is Dawn she is a stay-at-home mom." Certainly there is more to each one of us than just our jobs, but our jobs are a significant part of our lives.

So what happens when it is time to retire?

Retirement is the number one goal that we hear from our clients. The vast majority of the money we manage is being accumulated for the purpose of providing retirement income. The two most frequent questions we are

asked from our clients are, "Do I have enough for retirement?" and "How do I transition from accumulating a retirement portfolio to living off a retirement portfolio?"

In our experience most fear the first question more than they should. They hear claims like the one recently made by Senator Maria Cantwell who stated that "...92 percent of Americans are unprepared [financially] for retirement." Of course the senator was quoting a study, and there are lots of them. Most claim that anywhere from 53 percent to 84 percent of Americans will have inadequate income in old age.

*When it comes to retirement, the old saying is true – there is more to life than money.*

Andrew Biggs and Sylvester Schieber recently co-authored an article in The Wall Street Journal claiming that "...these statistics are vast overstatements, generated by methods that range from flawed to bogus." Biggs is a former principal deputy commissioner of the Social Security Administration and Schieber is a former chairman of the Social Security Advisory Board. They know a little bit about the subject of American retirement readiness.

Their claim matches what we have seen in our own client base. We help many of our clients with retirement and other forms of financial planning. There are certainly times when in doing so we must bring our clients bad news, but the majority of the time we deliver to our clients the news that they are better prepared than they originally thought. We can see the stress disappear from their faces as we go through the results.

The second question is easily answered. Several years ago now we created our income strategy. It is based on our belief that a prudent investor is absolute return-oriented and not concerned with the investment results of others. If a retiree needs to take income from her portfolio that equals 5 percent of the total, then we should invest that portfolio to achieve 5 percent income while taking as little risk as possible. In today's market that means owning the stock of companies like AT&T that makes dividend payments equal to 5.19 percent of the current price of the stock, or in industry terms yields 5.19 percent. Should rates rise and the United States Treasury offer to pay 5 percent interest on its debt, then she would own Treasuries. The point is to get the retirement income in the safest way possible. It also has the side effect of leaning more to stocks when interest rates are low and toward bonds when interest rates are high, which just happens to be a logical way to maximize returns over time.

Once the ability is calculated and the strategy understood, the conversation usually ends. But, it should not. There are two other questions that few ask, but everyone should. The first deals with health. Remember the story of Tithonus in Greek mythology: Tithonus was kidnapped by Eos, Titan of the dawn, to be her lover. Eos asked Zeus to grant Tithonus immortality, but she forgot to ask for eternal youth. Tithonus indeed lived forever but became old and frail and eventually was too weak to move his limbs. He begged for death but it would not come. The moral of the story is be careful for what you wish.

Retirement may seem great but one needs to plan for keeping in shape. For many Americans what little exercise they get comes from work. When they stop working they stop moving, and when that happens they start falling apart like Tithonus. In their book, "Younger Next Year," authors Chris Crowley and Henry Lodge do a great job of discussing the importance of staying active as we age. Lodge is a doctor in New York and Crowley is one of his patients. They discuss the importance of exercise in retirement.

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**We seem to be suffering** from some group memory issues. Second quarter GDP came in at 4% growth and everyone was celebrating the return of the US growth machine. The only issue is that the first quarter GDP shrank by 2%. Four plus negative two equals two. That's right, the same old story. We can't just decide to forget the first quarter. The economy slugs along while moods and predictions swing wildly. The official unemployment rate dropped slightly to 5.9% as the previously gradual improvement has seemed to almost disappear. Workforce participation remains at historically low levels.

## REVIEW of ECONOMY

The Federal Reserve Bank (Fed) should be done with the taper in October. Quantitative easing is now a memory. However, the fear in the market that the Fed is going to raise interest rates is unfounded. The data is just not there. GDP growth is anemic, inflation remains low and the job market is still weak. They are not going to raise rates until that data changes significantly. +

**Volatility is making a comeback.** The S&P 500 was up 1.1% but small company stocks, as measured by the Russell 2000 index were down 7.4%. Small company stocks are the most expensive of any major asset class right now and their down turn was not a surprise.

Bonds were flat with the Barclays Capital U.S. Aggregate Index up 0.17%. High yield bonds sold off during the quarter with the Merrill Lynch High Yield Master Index down 1.91%, which makes high yield bonds now more attractive going forward.

## REVIEW of MARKET

International markets were down led by Europe which, excluding the UK, was down 7.4%. The UK was down 6%. Emerging markets were also down, but were still the best place to be among the international crowd being only down 3.4%. +

# MARKET *forecast*

**We are cautious about the near term** as this market needs to correct and a correction may be starting. However, we are still confident in the longer term. Valuations on equities remain reasonable, and will only be more so should we finally get a full correction. Volatility has returned as we suggested last quarter. This should wash out some traders and create opportunities for investors.

U.S. large cap stocks are still attractive. International stocks are looking better as their prices fall. Emerging markets remain the most attractive on a valuation basis. Small company stocks are the only area that appears overvalued, even after leading the negativity.

Bonds remain our biggest concern over the long term, but they remain a shelter in the storm when the market does go down. +

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Our joints need to be moved and our muscles used or they lock up and deteriorate. The older we get, the faster that starts happening.

The second unasked question is perhaps even more important: What am I going to do to bring meaning to my life? Work provides purpose. We get up in the morning because we have to get to work. I am reminded of the simple prayer written by John Wesley, founder of the Methodist church. "God, grant that I may never live to be useless." People need to be useful, helpful, needed. If you don't believe me, watch the crowd on the plane the next time you fly. It starts in the security line as the person in front of you is unprepared to take his shoes and belt off and get out his laptop and quart-sized bag of allowed liquids, because he just had to check all of his messages instead of getting prepared while he meandered through the line for the last twenty minutes. I have often thought that airports should have signs that read, "If your email is so important that it can't wait 20 minutes then you would be flying private. Put the iPhone away!"

Of course it doesn't stop there. The minute the plane lands everyone has their phones back out, off of "airplane mode" and seeing what they missed over the last hour in flight. It makes them feel needed. It makes them feel important. While we may not need as much of that as we get with our electronically connected society, we do need some of it and for most of us it comes primarily from work.

Being prepared for retirement is not just about having the money. One needs a plan to stay active, to be involved and to create that sense of purpose. What am I going to do to keep my body active and healthy? What am I going to do for social interaction, fellowship and purpose? When faced with these questions many may come to the conclusion that the supposed bliss of retirement is nothing but a myth. When forced to fill their days, some will choose to play golf and

*We all love vacations, but a  
twenty-year vacation is a bit much.*

other stereotypical retirement activities, but most will decide that work isn't all that bad. They may want different work – fewer hours or more flexibility. They may want something more dear to their hearts, like volunteering at a charity, their church, the hospital or some other worthy institution. A person turning sixty-five years old today has a life expectancy of more than twenty years. We all love vacations, but a twenty-year vacation is a bit much.

I can only imagine the sense of purpose and fulfillment that those young Culver cadets felt with every life they saved. They were just boys. The gate that was given to Culver in recognition of their efforts is now more than 100 years old. For those unaware of its history and meaning, today the gate is the place where hungry students go to pick up the pizza they just ordered from local favorite Papa's Pizza. Even in old age we all need a purpose.

It is our job to help our clients meet their financial goals, the most important of which is usually retirement. This may seem strange coming from someone who manages money for a living, but when it comes to retirement the old saying is true: There is more to life than money. We would be remiss in our duty if we didn't remind you of that from time to time.



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