# THE TUDOR GUIDE
# TO
# WEALTH AND LIFETIME INCOME

TUDOR WEALTH
SERVICES

I thought it might be interesting to have some quotes or notes regarding wealth managment here.


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# BUILD WEALTH

To live, you need cash flow (income). And generally, to build wealth you need cash flow as well. In most cases, it is a fantasy to believe in the prospects of a huge inheritance or the sufficiency of government income (social security) to sustain retirement. A greater reality is that most have to build up a large nest egg over a lifetime to get through a long (longer than most envision) and successful retirement.

According to the 2010 Survey of Consumer Finances, only 1.3% of the population in the U.S. inherits a trust fund. And while many will receive some inheritance during their lifetime, another study showed that one third of inheritors actually had a negative net worth after two years.(1) So much for living independently based on hope.

**Two Important Retirement Ideas:**

There are two important things to remember about retirement preparation. They are simple (although not always easy):

1. First, save as much money as you can, for as long as you can, starting as early as you can. This should be ingrained as a philosophy from the first employment check.

2. Second, make sure you have the habits and attitudes necessary to live on less money than you have available. No matter how much or how little you have, learn to be satisfied while you spend less than you could spend.

## The First Step: Invest in Yourself

Investing in yourself is the first step on the road to financial independence. Economies become more complex over time. The existing economy requires greater skills and greater education than just a few decades back. This is why it is important to invest in the skillsets that work well for an evolving economy – and the complex current one. Greater education most often translates into greater income and job security. Without adequate investment in yourself, living paycheck to paycheck will not afford the opportunity to have the extra funds required for wealth accumulation.

## Income Sources in Your Accumulation Years

The best way to accumulate large wealth in the United States economy is through business ownership. Many choose that difficult, sometimes risky, but potentially hugely beneficial path.

The most heavily traveled road for cashflow (income) is employment. If you have invested in yourself properly as noted above, lifetime employment will nearly be certain and will provide the cash flow required for two primary financial goals: one - living for today and two - preparing for the future. Most have forty years in a working career to accumulate a healthy nest egg, but the journey is fraught with pitfalls. This guide will provide tips and recommendations to put financial success odds in your favor.

*(1) http://www.marketwatch.com/story/one-in-three-americans-who-get-an-inheritance-blow-it-2015-09-03*

# BUILD WEALTH

## How to Measure Your Cash Flow

When the money rolls in after starting your first job, you might think that it is all yours. But the reality is that there are these things called FICA and income tax and payroll deductions that reduce your aggregate pay. Nearly always the income you thought you had is only about two-thirds or less of your pay level. That is the first shock of employment. The second is that you may have to spend most of what is left on living.

But keep something in mind: the second principle we noted previously should kick in: learn to be satisfied while you spend less than you could spend. This should reign in your desire to load up on big financial commitments for mortgages, rent, car payments…living to the limit of income levels.

## Your Savings Rate

Cash flow from earnings and then dedicated to savings is the primary way for you to build wealth. Employer retirement plans or your own savings and retirement plan should be part of a “pay yourself first” principle.

To calculate your savings rate, take the total dollar amount you contribute to savings annually and divide that number into your annual gross pay – that equals your cash flow savings rate. (Do not count funds moved from one account to another). your wealth accumulation progress. Also include any funds that your employer might contribute into your retirement account that are “vested” or owned by you. Employer contributions usually have to be earned over time.

Since the 1980’s, savings rates have fallen dramatically. Experts suggest 10-15% annual savings rates to accumulate sufficient funds for retirement. Ask if your savings rate is sufficient to fund 20-30 retirement years. We will cover this topic in more detail later. Current U.S. savings rates are at 3.8% - way too low for long-term financial success.

BUILD WEALTH

## What Is The Productive Asset Ratio?

In our firm, we have a measure called the Productive Asset Ratio. It is derived from an analysis of your household balance sheet. The measure is designed to determine retirement readiness and the financial efficiency of a household.

The Productive Asset Ratio measures the proportion of productive assets on your household balance sheet. Our definition of productive assets include assets that hold or grow their value over time and can be tapped into for retirement. This definition, then, includes bank accounts (checking and savings), stocks, bonds and any sort of retirement account.

Why would we not include in productive assets a residential property? For one, residential housing is a sunk cost. That means we always need a place to live and will have to use that asset or a similar asset for that purpose, not for income. In addition, according to a Deutsche Bank study of long-term asset returns, residential property has only grown at a 3.78% pace for the last 100 years. (1) That is before expenses and just a little above the inflation rate for that period…suggesting residential real estate produces negative returns after expenses. Residential real estate is productive as a psychological asset – comfortable place to live, space between neighbors, more enthusiasm for work life.

| Productive Assets/Accounts | Financially Unproductive Assets/Accounts | Targets for Productive Assets/Accounts |
|---|---|---|
| Stocks | Residential Real Estate | **Age Brackets** |
| Bonds | Automobiles | Age 30 - 30 : 20% |
| Retirement Accounts | Second Homes | Age 40 - 49 : 50% |
| Productive Rental Real Estate | Unprofitable Rental Real Estate | Age 50 - 59 : 70% |
| Profitable Businesses | Recreational Vehicles | Age 60 - 69 : 80% |
| In-The-Money Options | Unprofitable Partnerships | Age 70 - 79 : 70% |
| Savings Account | Collections - In most cases | Age 80 - 89 : 60% |
| Checking | | Age 90+ : 40% |
| Annuities | | |
| Trust Accounts - Holding Productive Assets | | |
| Profitable Partnerships | | |
| Life Insurance | | |

(1) Bureau of Economic Analysis
(2) Long-term Asset Return Study: Deutsche Bank, Through 2017

*Before you focus on anything else, figure out which of these goals are most important to you. You can't figure out how to get there if you don't know where you are going...*

## BUILD WEALTH

### What is your plan for retirement?

Enjoy the golf course? Travel? Spend time with grandchildren? Keep on working, bur purely for fun? Tudor works with clients that have pursued these and many other diverse goals. But from a financial perspective, we've found most people are aiming to achieve one (or often more) of the following four goals. And before you focus on anything else, it is important that you figure out what your goals

- **Avoid running out of money**

For many this is their number one goal – and their number one retirement fear. Being forced to turn to your children – or go back to work – during retirement is a source of anxiety for many current and future retirees. Many folks think the key to achieving this goal is very low-volatility investments (e.g., Treasury bonds), but as we will discuss this is not always the case.

- **Maintain or improve lifestyle**

Most people have worked hard for their retirement and want to enjoy it. As such, a common goal for many of our clients is to maintain – or better yet, improve – their lifestyle during retirement. The key here is to maintain or grow purchasing power over time – this requires income growth to offset the malicious impact of inflation.

- **Increase wealth**

Some folks are easily able to enjoy the retirement lifestyle of their choosing with no fear of running out of money. For these fortunate individuals, the goal is often to grow their wealth over the long term – typically for legacy, whether that's children, grandchildren or charity. Unsurprisingly, most folks with this goal take a growth-oriented approach to their investments.

- **Spend every cent**

This isn't a typical goal among our clients, but there are some people who think success is spending all of their money before they die.  But this is often a risky proposition – there's no way to know exactly how you're your retirement will last, and folks who attempt this may find themselves out of money sooner than they think.

# PLANNING FOR RETIREMENT

How much will retirement cost?

## What is your plan for retirement?

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