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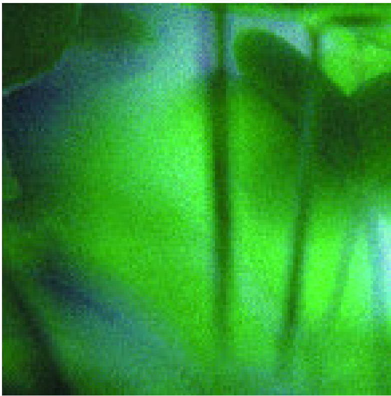
Dialogues » WEALTH STRATEGIES FOR DISCUSSION



We know how hard you worked to accumulate your wealth, and that key concerns go beyond investing in stocks and bonds. We make wealth work by helping you determine what's important to you, then developing actionable strategies to help you realize your goals and guard against the things that might undo them.

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How Much Money Do You Need for the Next Phase?

IT DEPENDS ON THE KIND OF RETIREMENT YOU ENVISIONED.

These days, "What's my number?" is a question millions of baby boomers are asking themselves, as in, "How much money do I need to stop worrying about retirement?" Figuring out that magic number has never been more challenging—or more important.

You have to figure out how to fulfill your retirement goals without sacrificing a comfortable life. Your money has to last, but you don't know how long your retirement will last (today, the average American can expect to live nearly 78 years). And longevity isn't the most remarkable aspect of baby boomers heading toward retirement—it's what they plan to do with those years. Golf and grandchildren still have their place, but people retiring today are just as likely to be balancing tee times and family visits with a second career, entrepreneurship, world travel or pursuing an advanced degree. How can a person possibly fit it all in—and afford it?

Talking is a good start. You may be surprised to learn that your retirement expectations differ from your spouse's. Perhaps you want to stay put in your suburban house, while your spouse envisions a move to the city. As you work out compromises, each decision will help you assess how much money you will need to finance your retirement.

Identifying your shared goals is vital to successful planning; but crunching the numbers definitely plays a role since the amount of income you'll need in order to live comfortably once you retire may be higher than you think. So, doing the math and finding your number sooner rather than later are definitely key steps.

Your number is as unique as your set of aspirations and needs. Together, we can work to clarify your priorities and calculate your number—and then help convert this number from a daunting prospect to the retirement you always wanted. ■

By the Smith Barney Division of Citigroup Global Markets Inc.

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Account Consolidation

Can Help Solve the Planning Puzzle

By now most investors are aware of the importance of portfolio diversification to reduce the risk of catastrophic loss, smooth out return volatility and, with luck, improve long-term investment performance.

However, some investors equate portfolio diversification with spreading their money across a large number of investments or other accounts. The two are not necessarily the same thing. In fact, having too many investment "baskets" can be almost as troublesome as—to paraphrase the old adage—putting too many eggs in one of them.

This seeming paradox demonstrates that barnyard proverbs don't always make for the best investment advice. Having a large number of relatively small investment accounts doesn't guarantee your money will be allocated prudently across different asset classes—such as stocks, bonds and cash instruments. It also doesn't ensure proper diversification among industries, credit categories and investment styles.

In fact, by maintaining a hodgepodge of accounts, investors simply may be driving their investment costs up and making effective financial planning even harder than it needs to be. The result is often higher risk and disappointing returns—not to mention a steady blizzard of account forms, statements and other records.

This picture is an all-too-common one for many individual investors, thanks in no small part to the growing popularity of tax-sheltered retirement and educational accounts such as individual retirement accounts, 401(k) plans, educational saving accounts and tuition savings programs offered by states and individual colleges and universities, such as section 529 plans. The rules for these programs encourage investors to fragment their wealth and thereby take advantage of all possible tax benefits.

What's more, the rules governing transfers between these accounts can be complex and paperwork intensive. Many retirement programs are also tied directly to employment, meaning investors may need to open a new account and transfer their assets every time they switch jobs. It's easy to forget or put off dealing with the process, meaning employees often leave a trail of old, inactive accounts behind them.

MAD MONEY

This trend is worrisome in part because it may reinforce a psychological tendency among many investors to treat different accounts as if they are fundamentally different in nature (e.g., more or less valuable, better or worse for certain uses, etc.), an effect that has been examined over the years by behavioral finance experts such as Richard Thaler in publications such as the *Journal of Economic Perspectives*. Financial experts call this tendency "mental accounting," and it can have a powerful effect on investment behavior. Investors often are willing to take bigger risks with funds they regard as "speculative money" than with sums they consider "long-term savings." They may refuse to invest the latter in anything with more risk than a certificate of deposit while recklessly buying penny stocks with the former.

These distinctions not only are irrational, they also violate one of the main premises of sound planning—that investment decisions should be based on the investor's objectives and time horizon and should be made on a portfolio-wide basis—and not piecemeal. It also can be an extremely costly way to manage your financial affairs. When assets are scattered across a host of different accounts, each of which may offer only a limited number of investment choices, it's easy to lose sight of the big picture—and even easier to make big financial mistakes.

WORKING ASSETS

This trend towards financial fragmentation can be seen in the multiplication of different tax-favored savings vehicles. Part of the problem is the increasingly footloose behavior of the American workforce. According to the Bureau of Labor Statistics, the average employee now changes jobs ten times over the

course of a career. Leaving an old job often means leaving behind an old 401(k) plan as well. In many cases, job hoppers have to either leave their accumulated balances in their old plans or roll them over into a new plan or an IRA.

There may be logical reasons to leave money behind. An old employer's 401(k) plan may offer more benefits to the participant. IRA holders can invest in a wide range of assets, vehicles and styles, and these may be more attractive than the options available in either the old employer's plan or the new one.

For many investors, the end result of all these trends is an increasingly fractured financial situation, a tendency that is likely to intensify in coming years as the baby boomers start to reach the age when they can take from their retirement plan distributions—including lump-sum distributions—without penalty.

Analysts speculate that many employees will use this opportunity to transfer at least part of their savings from company-sponsored plans to IRAs and other personal accounts. Boomers could use this reshuffling process to consolidate accounts and simplify their financial lives. But their financial behavior so far suggests they may do the opposite, further scattering their wealth across an even greater number of accounts and financial services providers.

MIX AND MATCH

To be sure, financial diversity has some benefits. By mixing and matching different vehicles and providers, investors may be able to find the ones that offer the highest-quality service or that are most appropriate for their specific needs. But the tradeoffs, in terms of effective financial management, can be considerable and this strategy does not protect against loss. Some common problems include:

"Analysts speculate that many employees will use this opportunity to transfer at least part of their savings from company-sponsored plans to IRAs and other personal accounts. Boomers could use this reshuffling process to consolidate accounts and simplify their financial lives."

- **Inadequate diversification.** Some investments maintain large positions in the same stocks or other securities—particularly if they specialize in the same asset class or investment style. Investors need to be aware of these overlaps when designing their overall asset allocation plan.
- **Ineffective rebalancing.** Most studies suggest investors can lower volatility—and thus reduce short-term portfolio risk—by periodically adjusting their asset allocations back towards their original mix. However, investors wishing to do this may have to pay fees or other costs to transfer funds between different accounts or providers.
- **Poor reporting.** Financial providers don't always provide investors with the same level of information about their accounts. This may make it difficult to evaluate performance or create trouble at tax time.

The most serious risks, however, may be psychological. Recent research has shown that investors often think about different financial accounts in different ways simply because of the type of account itself—rather than based on the assets they contain or even the intended uses of those funds. Unless investors have a sound, well-thought-out financial plan to help them make critical decisions, these habits can lead to serious mistakes.

CONCLUSIONS

In a perfect world, investors would be able to consolidate their accounts, let one company handle all the paperwork—and still be free to choose the right investment vehicles and the best managers for each allocation in their total portfolio.

The world, of course, is not perfect, and a certain amount of financial fragmentation is unavoidable—if only because of tax laws. But Smith Barney has developed a wide range of products and services designed to encourage a more integrated approach to investment management.

Your Financial Advisor can help you develop a wealth management plan that takes all of your assets into consideration. We can decide which accounts should be consolidated—and where, as well as help you review the many planning and investment vehicles available through Smith Barney, including a range of products and services provided by independent, third-party firms.

Whatever you decide, you will receive detailed, consolidated statements showing the performance of all assets invested with Smith Barney. What's more, through our website at www.smithbarney.com, you'd be able to monitor most, if not all, of your outside investment accounts—as well as your bank and credit card accounts, airline mileage accounts and more.

Even under the best of circumstances, financial planning can be a tricky jigsaw puzzle. But, like most puzzles, it's easier when it has fewer pieces. Talk to us today about prudent consolidation ideas that may work for your portfolio. ■

Diversification does not ensure against loss. The information set forth was obtained from sources believed to be reliable, but we cannot guarantee its accuracy or completeness. Past performance is no guarantee of future results.

smithbarney.com: Your Financial Life at Your Fingertips

Between work, family, travel and other passions, today's on-the-go lifestyle can be exhilarating. The downside of this fast-paced existence, however, is that it's sometimes difficult to keep up with other areas of your life, especially your personal finances.

To stay on top of your finances in a way that's simple and convenient, consider using **smithbarney.com**, a powerful online tool that is free to you as a valued client of Smith Barney.

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- Receive your monthly statement online (and save a tree or two)

You also can customize your own home page, so *you* decide what you see when you log on, which services you want to use and how you prefer to invest, making your online experience as individual as you are.

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