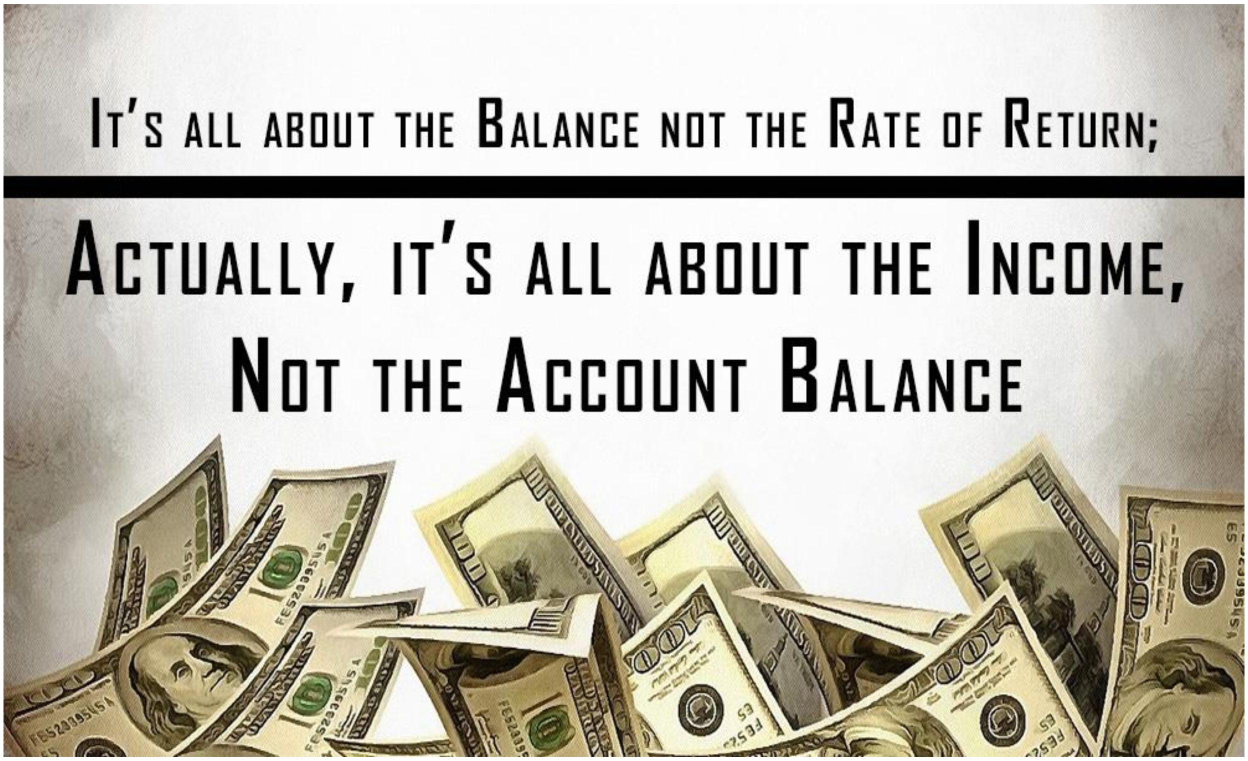

by
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Many people, pretty much everyone, focus on how much rate of return their money is earning. Now, in another article, I've shown that average rate of return or what we call the mean (adding up the positive years and negative years and dividing by the number of years) is a useless deceptive number used in the industry to trick and fool you into putting too much money in risk investments with brokerage firms. Also, because you've been fooled, you don't put enough money away for retirement, and then you lose the opportunity to have the retirement you deserve. The cost you pay for not understanding *real rate of return* is enormous.

But most people focus on rate of return whether it's the actual (which is very rare) or average, (which is very popular) and they get excited if they're making 10%. They get really excited if they're making 15%. But there are things that are so much more important than that, which is how much money you actually have. How much money are you earning on that 10% or 15%?

For instance, earning 10% on $100,000 is better than earning 10% on $70,000. It's better than earning 11% on $70,000. So the size of your account is a very important number and actually growing that account to have more money in it is way more important than being able to show friends that you earned some type of a percentage. So here's basic retirement planning.

- What do you need in income when you retire?
- When do you want to retire?
- What do you want your income to be like?
- How much are your investments going to be earning during retirement?

We work backwards and say, "Okay, what does the size of your account need to be if it earns that much interest to give you that income?" That's retirement income planning in a nutshell. So really, the size of your account when you reach retirement is what matters, not what interest rate you averaged along the way.

Now, why is this important? Because the popular brokerage firms, financial planning software, and authors are using a growth rate that doesn't actually add to your balance. As an example, if your account goes up 50% (so you go from $100,000 to $150,000 in one year) and then it goes down 33% the next year (you go from $150,000 back on down to $100,000, because 33% of $150,000 is $50,000) you have $100,000. You have exactly what you started with. But most people in the financial services, whether they know or not, are going to say that you're averaging (let's calculate that: 50% – 33% is 17%) 8.5% per year, which sounds amazing. You could make 8.5% per year. You'd never need other investments besides those. Now, you feel like you're doing great. The problem is your account has not grown. Then next year, let's say the market goes up 20%. You say, "Oh, my goodness. I want to make 20%. That's amazing.", but you're going up 20% on an account that hasn't grown. So it's on a smaller number.

The only thing that really matters is how much money is being put into your account. How much more is there than there was last year? What's the real growth? Having said that, it's really not about the balance, it's about the income that the balance kicks off of. Remember, I started by saying retirement planning says "How much income do you want and what chunk of money will create that income?" Well, retirement is 30 to 40 years of unemployment. You are no longer working or running a business, and when you stop working or running a business, what goes away? Income goes away. Your paycheck goes away. You no longer get paid regularly. Something has to pay you regularly.

Okay. Well, if you need $3,000 a month, what's better? An account that all you have to do is give them $600,000 and they'll give you $3,000 a month for the rest of your life and when you die your family gets the rest, or an account worth $800,000 where if you took out $3,000 a month, you have a huge chance of running out of money before you die? Which one is better, the $800,000-account or the $600,000-account? Well, if it's all about income, the $600,000-account is better.

So here are the things you need to notice, and by the way, keeping all of your money in a diversified portfolio of stocks, bonds, and mutual funds with a name-brand company doesn't accomplish either one of these. You don't get real growth. They're using a different number to fool you and you're not guaranteed any amount of income as their answer to everything is "it depends on market performance". You're just crossing your fingers and rolling the dice, hoping things will work out. But if you do things differently and you have real growth, always making money in your account, you're actually having real money added to your account every year, not taking any losses, and you can have guaranteed income for life no matter what the size of your account is today or in the future. Whatever that income is will always come in like clockwork, then any money left over goes to your family when you pass away. And that's real financial planning.

Indexed Annuities and Indexed Universal Life Insurance give you a real rate of return, no losses and either guaranteed lifetime income or tax free income in the case of insurance. Securities are wonderful for having fun and gambling but they do not do retirement planning well, no matter how long and how loud the retail mutual fund sales organization tell that lie.

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