“Local and state financial problems are accelerating, in large part because public entities promised pensions they couldn’t afford. During the next decade, you will read a lot of news – bad news – about public pension plans.” - Warren Buffett, 2/28/14

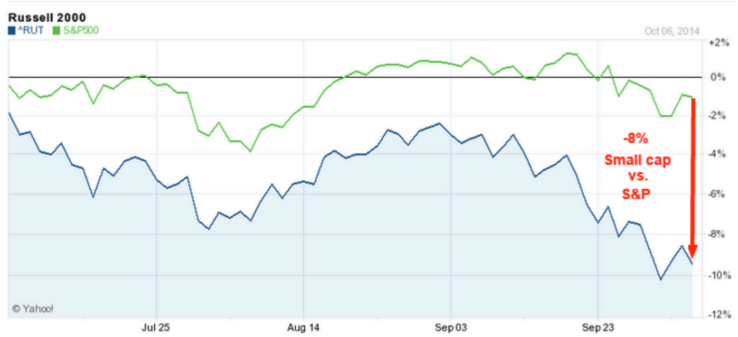
A BIG PROBLEM

- For the next 16 years, 10,000 baby boomers will reach the age of 65 every day. Day in and day out.
- Managing retirement is a key issue right now in the US for a large swath of people, and it’s not a simple situation. We’re in an exceptionally low yield environment, meaning it’s tough to earn additional money on your assets.

- Due to these low yields, it’s going to be tricky for anyone nearing retirement in the next 10 years. Good planning will be vital.
- Unfortunately, most public pension plans are using a very unconservative 8% annualized expected return. Less than 2% per year wouldn’t surprise us given today’s high starting levels. We’ve already enjoyed tomorrow’s returns during this recent bull run.
- If pensions assume these big returns and they don’t materialize, they’ll have no choice but to cut programs or raise required contributions from those still working. A disaster is inevitable for public pensions at this point.

What if you’re in charge of your own mini-pension, aka your retirement?

- Avoid making the same mistake as the pension funds by using more realistic assumptions. We think 4-5% annual returns for the next 10 years are certainly much more likely than 8%.
- Ensure that you don’t outlive your money in retirement by only taking withdrawals that are less than your annual returns. Picture a water pail with a hole in the bottom. If you don’t replace the water going into the bucket at a similar rate to what’s dripping out, it’s likely to become dry at some point.
- So with 4% expected rain fall over the next few years, a 3% distribution drip is reasonable.
- On a $1m retirement portfolio, a 3% withdrawal rate yields cash flow of $30k per year of spending. Much more than that, and you raise questions about being able to replace your water supply fast enough.
- Retirement cash flow has been such a hot button issue of late, we’ve put together personalized reports for numerous clients who have asked. We’d be happy to create one for you if you’re facing this issue.



FIRST DOMINOES?

- Due to horribly elevated pricing, small caps remain the most dangerous asset class. Avoid exposure as much as possible!
- We’re starting to see some cracks in the market’s foundations. Over the last 3 months, small caps have begun to dislocate downward from the S&P 500. Stay vigilant.

Performance since Jan 2008*

FSI (after all fees)	+70%
S&P 500 (w/ dividends)	+55%

* Based on auditable track record of our flagship fund.

Warmly,

Jake & Lonnie

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