

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

Announcer: Welcome back, America, to Sound Retirement Radio, where we bring you concepts, ideas and strategies, designed to help you achieve clarity, confidence and freedom as you prepare for and transition through retirement.

Now, here is your host, Jason Parker.

Jason Parker: Seattle, Tacoma, Olympia, Gig Harbor, all the good people here in Kitsap County, Jason Parker here. Thank you so much for making Sound Retirement Radio your resource for expert retirement advice. You're tuning in to Episode Number 35, 035. If you're looking for this episode on podcast or iTunes or if you just want to listen to it again from the website, it's Episode 035. Our topic today is going to be retirement paychecks. Before we do that, I want to share with you ... I know how much all of our listeners enjoy our jokes, and I'll let you know how this joke came about because this was fun.

You may have heard that I'm coaching my son's basketball team this year. He's 9 years old so I've got a team full of 9-year-old boys and it's our first game, we show up, everybody, the anticipation, the excitement, the nervousness was pretty intense right before the game is about to start. I call all the boys over to a huddle and I can tell they're looking at me and they're expecting this really inspirational, motivational "Give it everything you got." I said, "Who has a good joke?" Wind out of the sails.

Right there, one of the boys said ... He raised his hand. These kids are just so awesome. They raised their hand and he says, "Why don't bears wear shoes?"

Erik Ramsey: Oh boy.

Jason Parker: Because they're "bear-foot."

Erik Ramsey: What? (Laughing)

Sound Retirement Radio.COM
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035 Retirement Paycheck with Jason Parker & Erik Ramsey

- Jason Parker: Erik, I forgot to say, Erik Ramsey is on the program with me this morning. Erik, welcome to Sound Retirement Radio.
- Erik Ramsey: You didn't see me. I just grabbed the microphone and this is what I do. I'm very quiet.
- Jason Parker: I need somebody to laugh at these jokes and so he pretends to play along with me but ...
- Erik Ramsey: That's awesome, and the kids were inspired and they dominated.
- Jason Parker: No, but you know what did happen, because there was this tension and this nervousness, and everybody just relaxed. They got a smile on their face. They got a chuckle and I said, "Hey, let's go have some fun."
- Erik Ramsey: That's awesome.
- Jason Parker: When you have fun, everything is easier. That's what I hope to do this morning is have a little bit of fun. Erik, I know that you have some thoughts to share with us on how to integrate values and money, so I was hoping we can start this episode off right and discuss that.
- Erik Ramsey: I would love to. Kind of nerdy and I just love to sit and philosophies and think about money and the world and pizza, everything.
- Jason Parker: Life.
- Erik Ramsey: Exactly. This is the way to live.
- Jason Parker: And death. You'd like to think about death.
- Erik Ramsey: You like to think about death a lot. We need to talk about this at some point, but no, yeah, you actually embrace life more than almost

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

anybody I know. That inspires me, but yeah. No, I love to think about these things and last week, we talked about trying to integrate Christian values with some money. I was trying to point out, we do this because if you believe that there's a God, then you have to use your money towards that reality. Reality always inserts itself, asserts itself completely on the financial world.

Jason Parker: One of the things I love about that too, Erik is that you talk about reality but when you believe in God, you talk about a reality beyond just the physical reality. I thought that was a really great point.

Erik Ramsey: That's one of the big assumptions. There's something so much bigger beyond what we can see and we're going to bump against it or build off of it and that just depends on how we live. Today, I wanted to point out, if we're looking at money, what's very important is we have to understand that money is a means. It's not an end. It's a means, not an end. If you're not familiar with these terms, let me start to explain. Suppose you bought a plane ticket to Hawaii. Now that piece of paper, that plane ticket was very expensive but nobody buys a ticket for a piece of paper. They don't do that. You don't spend that kind of money for things that you can just lay on a desk or put on a wall.

You buy that piece of paper so that you can get on a plane. That ticket is a means to a plane trip, but the plane trip actually isn't the point. It's not the end. You don't get on a coach like class seat for itself. Nobody does that because, frankly, they're terrible.

Jason Parker: It's not a whole lot of fun flying anymore, but.

Erik Ramsey: It isn't, especially if you're tall. It just is ...

Jason Parker: They always sit me right back next to the bathroom with the screaming kid and ...

Erik Ramsey: Oh my goodness, yeah.

Jason Parker: Yeah, I love it. It's usually my kid that's screaming.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
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035 Retirement Paycheck with Jason Parker & Erik Ramsey

Erik Ramsey: Everybody's giving you this dirty looks and, oh, it's terrible. Nobody likes flying coach. Flying coach isn't the end. Nobody does it for itself. You fly coach so that you can get somewhere, so that you can get to that beach in Hawaii. The beach in Hawaii is an end. That you did all of these things, you paid all these money to get there. If I were to say, "Jason, why do you want to go to the beach in Hawaii?" You might say, "Because everybody just wants to go to the beach." You don't need a reason to go to the beach in Hawaii. Granted once you're there, you might find other things that you really like, like playing with your kids in the sand and the sea. That makes sense, but you don't need a reason, additional reason to go to the beach. It's an end. Does that make sense?

Jason Parker: Mm-hmm (affirmative), okay. Means versus ends. The plane ticket is the means, but ultimately our end is the destination.

Erik Ramsey: Exactly. The means get you there, but the end is the thing that you want for itself. Now when we think about finances, it's all important to remember ... It's just a means. The biggest example of this is super rich people and we see examples of this. They have all the money they could possibly want and yet they're not happy. Something has gone wrong. I think ... The Bible says money is deceitful. Granted a dime has never said lies to me, but there's this almost lie associated with it. That I'm going to make you happy. I'm going to be all that you need. People think it all the time, but as we see some rich people, we see that they're not always happy, they treated it like an end and it just wasn't. That's the reality.

Like we said, reality is a great thing to build on but a painful thing to bounce off of. Money is just a means. Nevertheless, it would be so foolish to dismiss money entirely. It's a very powerful means. The reason is this. Money allows all of humanity to pull the resources and their talents together. For example, I have this gardening black thumb. If I touch a plant or tree, it will die. It's just terrible. I cannot grow my own vegetables and yet I need to eat, but I can't do it. Therefore, I need a farmer or a gardener to do this for me, but then I have to do something to give back to them. I have to somehow offer some financial advice or a radio show that they can sleep peacefully through. Sorry. Just in my segment.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
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035 Retirement Paycheck with Jason Parker & Erik Ramsey

By sharing our skills, we make this world so much better and we do this through money. In short, money allows us to bring our greatest talents to meet our greatest needs. This is so important when so many jobs require so much skill and so much practice, and allows us to just pull everything together and then direct our greatest talents where they're needed most. It's a very powerful means. This begs the question, to what end should it be directed? This, I think, is where most Christians and non-Christians views will divide and they'll go in separate directions.

Up to this point, I think Christians and non-Christians are probably the same. Yeah, I agree with that, but at this point I think a non-believer usually ... I don't want to get too over general here, but I think usually they would say, "There really aren't any eternal values to spend my money towards. What's most important now is taking my money and spending it in a way that gives me the most pleasure and hope that I would spend my money in ways that give me pleasure," and hopefully that's on them. Maybe that would be their best.

Christians believe something else. That like you said earlier, there's a reality above and below and around this life that we see right now, and so we need to be spending towards those purposes. Now, let's give an example. Suppose we found out that the purpose of life was s'mores. That would mean that the first thing on our budget needs to be graham crackers, chocolate and marshmallows. We have to make sure that that's accounted for. I think our world is different than that. I think we've been given a clue as to what our values are, what our big major purpose in life is.

If we look at Luke 10:27, Jesus said: "Love the Lord your God with all your heart, with all your soul, with all your mind and your strength." I mean we've all heard this before, and love your neighbor as yourself. This is our biggest clue that the whole point of this life is love, loving God and loving each other. What we need to do is as we take each paycheck, every dollar, we have to actually ask ourselves, "Am I going to spend this towards love?" Now, I am nowhere near mastering this principle. Mostly I just buy stuff and when I'm budgeting, I'm not usually doing this. This takes a lot of work to say, "Is this money going to really go towards love?" Towards loving my kids, towards loving

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

God, towards loving people? I don't even know. Frankly, towards taking care of me so that I can love again and again.

This, I think, is the reality of our life. We've been made for a purpose. Money is not an end in itself but it's made to serve that purpose that we are made for which I believe is love. Therefore, we need to be budgeting and directing our money towards love all the time. Now, this will take a lifetime to get right, but if we don't do it, we're going to find, as we bump against that eternal reality that we've made this very serious mistake.

Jason Parker: I think one of the things that needs to be asked or thought about or questioned too is people save and save and save for a future destination, a future point which is retirement. Is retirement the destination or is it the end?

Erik Ramsey: It's both. It's both because ... I mean the goal is at some point to have time and money to direct towards what really matters, to really direct towards love. We see so many clients come in and they say, "I want to spend time with my grandkids." Guess what that means? This says, "I want to love. I want to spend my time and my money loving people. I want to spend my time and money loving my wife with fewer distractions." That's completely valid.

Jason Parker: As I think about that, I think, retirement is a destination. It is an end, but at the same time it's a brand new beginning.

Erik Ramsey: Exactly.

Jason Parker: One of the things I keep learning, I'm relearning over and over again is every time when I come to what I think is an end, I find that it's really just the beginning of a new destination, a new place. Today, we're going to be talking about retirement paychecks, so as we transition from a means to an end, people are transitioning from working to retirement. One of the core components of a good retirement plan is being able to have an excellent retirement paycheck, and we're going to talk a little bit more about what that means right after this break.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

(Music)

Seattle, Tacoma, Olympia, Gig Harbor, all the good people here in Kitsap County, I'm Jason Parker. I've got Erik Ramsey in the studio with me this morning. We are talking about your favorite subject as well as ours. This is what our specialty is. It's all about retirement here at Sound Retirement Radio. My book is "Sound Retirement Planning" and I do want to thank all of our listeners, our community, our Facebook fans. For those of you that have written review of my book, you become a fan on Facebook. We really value you and I hope that the work that we're doing adds significant value to your financial life, your purpose as you prepare for and transition through retirement. If you're just tuning in, this is Episode 035. We are talking about retirement paychecks.

Erik, we just had this opportunity, we had the chance to talk with somebody recently who's getting ready for retirement. Let's talk about that a little bit.

Erik Ramsey: Fascinating guy. Forty-six years just working solid and that happens, and he had some amazing jobs picking pineapples in Hawaii. It doesn't sound like the worst job in the world. Siberia is probably ... No, closer to that worse job, but.

Jason Parker: I actually think it sounds refreshing actually. I love the smell of fresh pineapples, warm climate, and ...

Erik Ramsey: I don't know what it'd be like to ... Right. Do it every day, it might get a little old, but it sounds awesome and makes very good story. Shoveling coal, probably a little less refreshing. I don't know if that sm-

Jason Parker: No one doesn't do a whole lot for me.

Erik Ramsey: But he spent 46 years doing these jobs working very hard and then at the end of it, he came to retirement which is fantastic. It's a goal for so many of us, but it required a complete mindset change.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
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035 Retirement Paycheck with Jason Parker & Erik Ramsey

Jason Parker: Yeah, and it was really, really interesting to hear him say that because ... if you haven't listened to this episode, folks, you can go back. This is called "Real Retirement Stories with Dean." Go to soundretirementplanning.com, listen to this interview. We interviewed a gentleman who had retired but one of the things he said that was so striking ... He said, "Jason, I worked for 46 years, had all of these different experiences as I prepared for retirement," and he said, "For 46 years I had a paycheck and all of a sudden when I was coming to the end of that, all of a sudden I wasn't going to have that paycheck anymore." He said, "What I realized was what I had saved, I was going to have to live on."

One of the things I realized is that retirement ... and this is something I say over and over and over again ... Retirement is all about cash flow. It's your income that will determine your lifestyle in retirement, not your net worth. Boy, it have that consistency. For 46 years, you've been used to getting that paycheck every two weeks. How nice would it be if as you transition into retirement, you have the same thing?

Erik Ramsey: You could practically tattoo that to your face. You say it all the time.

Jason Parker: Yes. Do you guys know that retirement is all about cash flow?

Erik Ramsey: What?! Cash flow?

Jason Parker: After five years, have I driven that message into people's mind?

Erik Ramsey: Do you think that's going to determine your level of living more than anything else? I don't know, I've never heard you say that.

Jason Parker: It's not just income in today's dollar. I think one of the things we have to be thinking about is income with dollars that are going to purchase less in the future. The Federal Reserve has an inflation target of at least 2%. They'd probably be happier with two and a half or three percent. It shows an economy that's growing. What inflation means ... and we know this is the truth because all of us have lived it ... a dollar today buys less than a dollar would have purchased 10 years ago. Ten

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

years from now, the dollars that we have are going to purchase even less.

Do you remember in the movie Total ... I think it was Total Recall with Arnold Schwarzenegger. He went to buy a can of soda from a machine and I think he had to put like four or five dollars into the machine. At the time we could buy those sodas for like 50 cents.

Erik Ramsey: Those are good days.

Jason Parker: Fifty cents. I remember looking at that thinking, "This is ridiculous the amount of money he's having to shovel into this machine to get a ..." We're there. I mean ...

Erik Ramsey: We're paying that for almost for water.

Jason Parker: Yeah. We're paying more for water than we do for gasoline.

Erik Ramsey: Oh man.

Jason Parker: Especially with gas prices. Oil being less than \$48 a barrel, I have to say I've been enjoying this low fuel prices. When I first bought my truck, it cost me over a \$100 to fill my truck up. Right now, it's costing me just a little over \$60 to fill the truck up with fuel.

Erik Ramsey: How refreshing.

Jason Parker: Yeah, so I drive to work and then I drive home and I drive to work again. I just keep driving just because I'm enjoying the gas prices so much. Take the long way here.

Erik Ramsey: The trees are not thanking you. I guess they like it. Carbon dioxide, yummy, yummy.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

- Jason Parker: How do we replace retirement paycheck? That's what our listeners want to know. There's a lot of different ways actually. There's not one way to do this. Like with all of finances, there's a lot of difficult ways to do it. My belief, Erik, is that it doesn't ... Because there are so many ways to accomplish some of this goal, it really depends on people's risk tolerance, it depends on their time horizon, it depends on really how much consistency they want in that cash flow plan. A lot of different ways to do it, but I think we should talk about some of those different ways this morning.
- Erik Ramsey: Historically, there's just been maybe two or three or schools of thoughts on what you do. I think the first was bonds. You need an income. Bonds are a good way to get income. They just periodically give you money. That sounds good. Then the other-
- Jason Parker: Consistently. Consistently give you money. I mean, that's the whole idea behind a bond, hopefully. If they're in good shape, they're going to be making those payments to you on a regular basis, whatever the schedule of payments is. You're lending money to somebody and they're going to pay you back at a pre-determined interest rate and ...
- Erik Ramsey: You know what that interest rate is? That should work. It should.
- Jason Parker: It should. A lot of the people ... I met with a lot of people today. They come into the office and they say, "You know, Jason, when my dad retired," now these are 60-year-old folks, so they'd say, "Jason, when my dad retired, he just bought a great big basket of municipal bonds that were paying 6, 7, 8 percent tax free income and he just lived off of the income and life was really good. It was tax free income. He didn't have any risk. He was getting 6, 7, 8 percent. He wasn't ... Those numbers worked really good.
- Erik Ramsey: Great. That sounds incredibly simple.
- Jason Parker: It would work wonderfully. Unfortunately, today, if we go out and try to buy a municipal bond, what do you think municipal bonds are paying right now?

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

Erik Ramsey: Twenty thousand percent. I'm trying to be optimistic like you.

Jason Parker: I had the opportunity to meet with a lady that came into the office recently. She was able to get 4% on her municipal bonds. The thing, the kicker with bonds is you always want to know what are the terms. What are the terms of those bonds? I asked her, I said, "How long do you have to hold that bond to get all of your money back? To get your initial investment back?" Guess how long she had to hold those bonds.

Erik Ramsey: My guess for that in this climate, it would be quite a while. Fifteen years plus?

Jason Parker: Twenty years.

Erik Ramsey: Oh.

Jason Parker: Twenty years. The thing that was little bit alarming about that was she was 80 years old. She bought 4% bonds, which 4% tax-free is pretty good, but she was going to have to hold those things for 20 years, and 80, I'm not sure if that's really a great way to go. The other thing I think people really need to be thinking about is what happens to bonds when interest rates go up? I mean we need to be having that conversation.

Erik Ramsey: Because bonds are extremely sensitive to interest rates.

Jason Parker: Extremely. Yeah, in fact, I would even go as far as saying it's probably the biggest risk to bond holders right now is the interest rate risk.

Erik Ramsey: Because interest rates are 0%.

Jason Parker: Which way they're going to go? Are interest rates going to ... Look, folks, I want you to just ask yourself, if you're listening and you're driving down the street right now, I want you to ask yourself this question: "Are interest rates going to go down, stay the same, or go up in the future?" Before you answer the question, remember that the

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

Fed has set interest rates and they are still floating between 0 and 0.25 for the Federal funds rate. Are interest rates going to go down, stay flat, or go up in the future?

Erik Ramsey: The other day I tripped and I fell and I landed on the floor, and then I didn't keep going down.

Jason Parker: That's really good news, actually, probably.

Erik Ramsey: Yeah. Interest rates are just going to have to go up. Bonds, they're sensitive to that. They're just going to have to devalue.

Jason Parker: In a rising interest rate environment, if you buy a bond today and interest rates start to go up and you had to sell that bond before maturity, it's not a matter or question of if you're going to lose money, it's just a question of how much you're going to lose depending on how much interest rates go up. Because the reality is if you buy a bond today that's paying you 2 or 3 percent, and believe it or not, Erik, right now the 10-year Treasury bond, you have to hold it for 10 years and you get compensated less than 2%. It's like 1.9% right now. You have to be insane to do that. Why would you lock up your money for 10 years for 1.9%? Not something I'm interested in.

Here's what makes this really tricky. A lot of people, they've gone to their broker and they said, "Look, I want more safety. I don't want to deal with this stock market fluctuations like I have in the past, so give me more bonds." They don't even own individual bonds. They don't even own something that they can hold till maturity. Instead what they own are bond mutual funds and bond ETFs. There's even a bigger risk with those tools, because at least with a bond, if you buy your 10-year Treasury bond, you know you can hold it for 10 years. You might only be getting 1.9% as long as you don't have to sell it before maturity, you're going to get that initial investment back, but you buy a bond mutual fund, you don't have a maturity date. You are more exposed, more exposed to interest rate risk.

Erik Ramsey: Because somebody else is just going to sell it for you and trying to adjust.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

Jason Parker: Yeah. The question is, especially for people that own bond mutual funds, if interest rates start to go up and there's this mad dash for the door and everybody is saying, "I want out of these things," the bond mutual fund holder, in order to make people haul is either going to have to do one of two things. If they've got a line of credit established, they're going to have to borrow so that they don't have to sell bonds up to a certain limit. I mean that's not going to be go on forever. What's probably going to happen in most portfolios depending on the bond fund holder or a manager, they're going to have to sell securities, sell bonds and if you own a bond mutual fund, you have no control and no say over that.

Erik, one of the things I think we really want people to understand is duration risk. If they own a bond mutual fund, understanding duration helps you understand how much risk you have in that bond in a rising interest rate environment, and this is something that we can help people with. If you are retired, you want a retirement paycheck, maybe you're just one or two years from retirement and you're trying to figure out how to diversify your portfolio, for the first 10 people that call in today, we are going to give you a complimentary consultation as long as you have ... We want you to come call in if you have more than \$250,000 of investable assets.

If you don't have at least \$250,000 of investable assets, it's really hard for us to probably help put together a good plan for you. The telephone number, Erik, how can they reach us?

Erik Ramsey: They call us at 1-800-514-5046.

Jason Parker: Again, for the first 10 people that call in this week, we will setup a complimentary phone consultation, 15-minutes just to see if there's anything that we can do that would add any significant value to your life, but especially right now if you own bonds or bond mutual funds and you have retirement in your sights, you're one to two years out. We want to be able to help you evaluate whether or not that's the best place for you as it relates to your overall retirement plan. In the next segment as we come back from our break, we need to talk about having a good retirement income plan, and besides bonds, what are some of the other ways people can structure a plan? We're going to

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

take our next break and we will be right back in just a minute to discuss retirement income planning as well as how to develop an income plan without using bonds.

Voiceover: Are you 50 years or older and have at least \$500,000 of investable assets? If so, this message may be beneficial for you. Are you confident that you will be able to retire and not run out of money? Are you concerned about higher inflation, higher taxes, and what market volatility will do to your portfolio? If you answered yes to any of these questions, then I encourage you to take advantage of this offer. Jason Parker, the author of "Sound Retirement Planning" and president of Parker Financial is offering a free report titled "10 Things to Know About Planning Your Retirement Income" that may provide you answers to the above questions and much more. Call his office at 1-800-514-5046 to receive your report free of charge. Again, call now at 1-800-514-5046.

Jason Parker: Alrighty folks, Jason Parker here joined by the amazing and wonderful Erik Ramsey. Today, our episode is Episode 035, 035, 35. We're talking about retirement paycheck. We just talked about bonds. I really love the fact, Erik, that you started this episode talking means versus an end. I like that retirement is both. It is a means and an end, but it's a new beginning. One of the things I was just thinking about during break is that when you retire, it's important that your money also work differently for you than it did during the accumulation phase of life.

Erik Ramsey: Right, you're working differently; your money needs to work differently. It takes on just different roles.

Jason Parker: Seems like a pretty simple concept. You're no longer in accumulation mode, which was great during those 46 years of retirement, but now when you transition into retirement, you have to be thinking income and preservation.

Erik Ramsey: You don't want to spend it too quickly. You don't want to run out, not when you can't replace it, and replacing it becomes so much harder in retirement.

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Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

Jason Parker: Unless you want to go back to work. One of the biggest concerns we hear from people is "Have I saved enough to make this last the rest of my life?" Today, we're talking about a retirement paycheck. You've been used to getting that check every two weeks. As you transition to retirement, one of the ways traditionally that we just talked about were using bonds, putting all of your money in bonds and just living off the income that is being produced, and we talked about some of the risks that exists there. What's next?

Erik Ramsey: Stocks. There's the 4% rule. Everywhere you go, you hear the 4% rule with stocks. You have a huge stock basket and portfolio and you say, "All right, I will draw off 4% from this and that's what I'll live off of."

Jason Parker: Yeah, they call this the prudent man's rule. Four percent, as long as ... There is a study that was done, I can't remember the year, but essentially what they said is if when you retired, you had a portfolio of various proportions, and usually, Erik, it's somewhere between 60% bonds and 40% stocks. Sometimes you see people say, "Sixty percent stocks and 40% bonds," but the idea is you have a diversified portfolio amongst stocks and bonds.

For example, let's say you had a million dollars. The 4% rule would say you should be able to take \$40,000 out of that portfolio every year for the rest of your life and adjust that 4% every year for inflation, so every year you're taking a little bit more. Now, up until 2008 when the market tanked, now the 4% rule is almost like a golden rule. Everybody referred to it. This is the way to do it. Create a diversified portfolio and only take 4%. 2008 hits and what happens to the market?

Erik Ramsey: Paradigms shattered. It's like shifting without a clutch.

Jason Parker: Yeah.

Erik Ramsey: Stopped working because the whole portfolio began to sink rapidly.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

Jason Parker: Two thousand and eight was a wakeup call. Problems are a good thing. They help us shift our thinking. They help us get out of a rut, of saying it's always going to be this way. Unfortunately, for people that were following some of that advice, they had constructed a portfolio that required a 4% withdrawal rules so that they'd be comfortable throughout retirement, and in some instances, they went from a million dollar portfolio to a \$500,000 portfolio. I met people where that happened.

Erik Ramsey: That is such a hit.

Jason Parker: Imagine you need \$40,000 a year. That's your 4% on a million, but now at the end of 2008, you only got 500,000. Instead of needing 4%, now you're taking an 8% withdrawal. Now you had a good plan that has just turned into "Should we start flipping hamburgers?"

Erik Ramsey: That is a depressing thought, but a reality for some people who just exposed themselves to so much risk in the stock market.

Jason Parker: It is a reality. I mean we're playing a game. It is a financial game. Tony Robbins, new book that came out is "Money Mastering the Financial Game" I think is the title. You're playing a game and it can be a dangerous one if you don't get it right because most people, when they make that decision to start this next adventure, the journey of retirement, they do not want to have to go back to work afterwards, for the most part. I mean some people like the idea of maybe shifting careers or shifting from one career to another. For the most part, people have this idea of retirement that does not include working in the traditional sense.

Erik Ramsey: Few people feed their souls by flipping hamburgers. They don't think that's the most enjoyable job ever. I loved it.

Jason Parker: Now, after 2008, what some financial experts started saying is to be safe, instead of using the 4% rule, we should probably only use a 3% rule.

Sound Retirement Radio.COM
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

Erik Ramsey: That's more conservative and it makes more sense. Is there anything else though that ...?

Jason Parker: We see the market take another big tankerooni here, I mean, and we have to recognize that market's been running hot now for five years. Just this first couple of weeks of January, we are seeing a lot of volatility.

Erik Ramsey: Down 300, up significant amount. I think 200 the other day. It's just been going all over the place.

Jason Parker: Down 300, up 200; down a 150. Very, very volatile. If we see another big correction and as people look out into the market, I think people have a sense that it's really not probably sustainable what we've been seeing. Price to earnings is at rates that historically have been unsustainable and that's just a fundamental way of looking at the stock market. The thing that's unique this time around is that all of the quantitative easing, all of the printing of money, all of this wealth creation that's taking place, none of us, we'd never done this before, so none of us really know how it's going to play out in our country. Of course, we could look at other countries and see how massive printing of money plays out, but the question becomes, in America where we are the economic powerhouse and leaders of the world, how is it going to impact the dollar, especially when countries all over the world are struggling?

Erik Ramsey: Right, and so many are sending money to us, but that's causing problems. Like strengthening dollar now is becoming a problem in the stock market.

Jason Parker: Yeah, it is becoming a problem, absolutely.

Erik Ramsey: Yeah.

Jason Parker: The 4% rule became the 3% rule. Since we're on stocks, I want to talk about one other idea that's been very popular with people that we've helped implement. Some folks, kind of a different strategy, a different

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

approach. I remember some folks came in and they said, "Jason, we're not overly concerned." They said, "We're happy to buy individual bonds and we don't care if they're 30-year bonds because we will hold them to maturity as long as they're producing the income for us that we need." They said, "We'd like a portion of our portfolio to be in these long-term bonds. The values can go up and down, but we recognize we're going to hold them to maturity to get our initial investment back. As long as the company's don't fail, that should work out."

Then they say, "The other part of the money, we really like dividend paying stocks. We like companies that reward shareholders by paying dividends and companies that have consistently done that for a really long time." One of the neat things about dividend paying stocks is many of them have increased their dividends consistently and regularly over time. These particular folks, there have been several of them that have appreciated this, they had enough assets to make this work. You could buy a basket full of individual bonds, long-term bonds. Great income coming in. They're not worried about the volatility of rising interest rates.

They have dividend paying stocks consistently paying dividends throughout the course of the year, and raising those dividends so that they have a got a hedge against inflation. Because we know the bond income is going to be static and the price of those bonds probably are not going to look real favorable in a rising interest rate environment. They've got those dividends that help create that increased income in retirement.

One of the other ways that people do this is they use that mixed approach: long-term bonds, holding individual bonds, not bond mutual funds, dividend-paying stocks to help deal with the effects of inflation, and then they commit themselves. They say, "I don't care if this portfolio is down 75% in one year. We're not going to sell anything. We're just going to live off the dividends that are being paid." As long as the companies continue to pay their dividends and as long as the bonds don't default and continue to pay their interest, their financial plans look pretty good. That's another way to use stocks and bonds in one portfolio if you have enough money for ... A lot of the folks that implement a plan like that have usually more than a million dollars to work with.

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

Erik Ramsey: Right. It's a good plan. Sorry, we heard some interest in this term CAPE before. You used this term. Do you want to just express that again?

Jason Parker: Yeah, and we need to probably talk about this in more greater detail, the cyclically adjusted price to earnings ratio, but before we go to break, I just want to remind our listeners, the first 10 people that call in today to 1-800-514-5046, if you're getting ready to retirement, maybe you just retired, we want to make sure that you have a good retirement paycheck, and there's a lot of different ways to do this. Designing a retirement paycheck should be done around a comprehensive retirement plan. There's a lot of different things we look at.

I also want to talk about that when we come back from break, but again, let's make sure that if you are in that position, you're getting ready to retire, you want to outpace inflation, you want to have consistency, you want to have a retirement paycheck. You don't want to have to worry about the stock market performing in order for you to receive that income every month because that's what you're used to, give us a call at 1-800-514-5046. The first 10 people that call us, we're going to offer you a 15-minute consultation just to see if it looks like you might be qualified to work with us.

Erik, with that being said, when we get back from the break, we're going to be talking about a couple of different ways, we're going to talk about the cyclically adjusted price to earnings ratio, and we also want to talk about a retirement plan, what that should look like, what it should entail. I'm Jason Parker. I've got Erik Ramsey in the studio. We'll be right back.

(Music)

Alrighty folks, Jason Parker and ...

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

Erik Ramsey: Erik Ramsey.

Jason Parker: Erik Ramsey. We're back at Seattle, all the good people here in Kitsap County. We're talking about retirement paychecks today. This is Episode 035. I'm reminded, Erik, as we talk about retirement income, Social Security represents a big portion of that for a lot of people. I think on Social Security statements, one that I read recently said that for many people, Social Security represents 40% of their guaranteed income.

Erik Ramsey: That's a big chunk.

Jason Parker: It's a lot of money.

Erik Ramsey: Is income an important part of retirement? I don't know if you've ever said something like that before.

Jason Parker: We do have some really great tools available to us and if you visit SoundRetirementPlanning.com, I encourage you, this is such a simple thing to do. So many people don't do it. They make emotional decisions about Social Security, but we have our Social Security calculator. On the right-hand side, there's a black box that says "Try our free Social Security calculator." You can find out what's at stake for you, especially important for married couples. In fact, so important. Many times we find that the difference between a good Social Security claiming strategy and a bad one is between 50 to 100 thousand dollars of additional lifetime income. For some people, that's the difference between having enough money to last their entire life or running out of money too soon. Very, very important.

Erik Ramsey: Claiming Social Security is a bit more advanced than it's often pointed to. It's like, "Well, I just signed up for it." There's a lot of nuances to getting more and making it part of a better plan.

Jason Parker: One of the biggest mistakes people make is not understanding the claiming strategies that exist. Here's the emotional decision they make. They say, "Social Security is going to be broke. I'm going to take it as early as I can," and not take it into consideration the overall

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HOSTED BY JASON PARKER



035 Retirement Paycheck with Jason Parker & Erik Ramsey

retirement plan with how they start Social Security. We got a free calculator. All you have to do is go to SoundRetirementPlanning.com. Click the box, fill out a little bit of general information about you and see what's at stake and learn a little bit more about this.

Erik Ramsey: Yeah, that sounds fantastic. Do you want to talk about, I don't know, the better way ... We've seen that bonds, man, they're exposing people to a lot of risk at this point. Stocks, a lot of risk at this point. Is there some way to mitigate this risk while you're still getting that upside potential that these things have? Do you want to talk about that?

Jason Parker: I do. One of the things though, what we said that we were going to ... We want to talk about that CAPE ratio.

Erik Ramsey: Thank you, yes, we started to allude to that.

Jason Parker: This has been getting a lot of attention, I think, one of the reasons is Robert Shiller won a Nobel Prize in Economics last year. He's been all over the news. Everywhere you look, you've got Robert Shiller talking about the cyclically adjusted price to earnings ratio. Fundamental way of looking at is the stock market a good ... How did you say this the other day?

Erik Ramsey: If it's overpriced we want to sell it. If it's underpriced, you want to buy it. This CAPE, the cyclically adjusted price index, it gives us a pretty good sense of is it overpriced or under-priced?

Jason Parker: Is it a good value? Is it a good time to buy it?

Erik Ramsey: Right.

Jason Parker: If you're going to go buy a new car, do you want to pay the absolute highest price you can get for that car or do you want to wait till it goes on sale? The cyclically adjusted price to earnings ratio, as it pertains to the S&P 500 index, we have a 130 years of data, and really what we're doing is we're taking the price of the market as valued or

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

measured by the S&P 500 divided by earnings adjusted for inflation over 10 year periods of time and looking back at a 130 years of data, because we know inflation is a core component of this. It's not all just capital appreciation. What we know is that cyclically adjusted price to earnings ratio, the media price to earnings out of the market has been about 15.5, 15.9 over that 130 years.

Anything above that, 15.9, would say market is expensive. Anything below that would say market is a bargain. This really needs to be understood because, especially if you're just getting ready to retire, the market's been running really hot. Maybe you finally recovered from the losses of 2008. Your 201k is back to a 401k. That's good. We got all these bad jokes we might as well just keep it going.

Erik Ramsey: Throwing in all the time.

Jason Parker: You finally are back to where you were. The market's been running hot. You get hardly anything for locking up your money for 10 years in bonds. You just need direction. You need to know what do we do from here. How do we do this going forward? What does a good retirement plan look like? The cyclically adjusted price to earnings is a fundamental way. Now, here's what it doesn't do well. We can look back a 130 years and say, "Boy, the market is really expensive. There have only really been a couple, a handful of times in the last 130 years where the cyclically adjusted price to earnings to ratio is higher than it is right now. By the way, that's over 26. There has been about three times and both of those times didn't end well afterwards, or all three of those times.

The cyclically adjusted price to earnings ratio is not a very good tool for understanding the timing of when that's going to happen. Because it's high now doesn't necessarily mean that we're two weeks away from a big market correction. We could be two years, three years, six years, ten years. We don't know when it's going to happen but what we know is that over time, historically, the markets have a fundamental valuation that they tend to revert to when things get too hot.

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

Erik Ramsey: What this means is if it's ordinarily 15.9 and now it's 26, it means it's expensive, we're going to see a correction ...

Jason Parker: I just don't know when.

Erik Ramsey: We don't know when. How do we control for that volatility? When we're going into retirement, we can't replace the money with a job, with an income. We have to provide ourselves of that income. How do we provide for that risk, Jason?

Jason Parker: One of the things I'm always worried about is that when we do this program it becomes all about stocks and bonds and mutual funds and ETFs and insurance products and annuities and hedge funds, and limited partnerships and real estate investments, all these different financial tools you can put your money, and there's so much noise right now with everybody. You turn on the TV and you've got Jim Cramer screaming, "You should buy this and you should sell this and get in and get out." Man, it just creates so much confusion for people's lives and the retirement plan is not a financial product. It's not a timing strategy, it is not a newsletter. It is not a product; it's not an insurance contract. That is not a financial plan.

Really, Erick, what people need, if you really want peace of mind, you want a retirement plan. You design the retirement plan, make conservative assumptions about things that could happen in the future, and then create a ... With all these different financial tools that we have available to us, you go out and you find the best financial tool to complement your specific plan.

Erik Ramsey: The plan guides us. You started off when you're thinking clearly and you get a plan and then you just live by it when things go crazy. You adjust but you don't throw it out the window. That can provide so much confidence and clarity.

Jason Parker: Absolutely. For the next 10 callers, the first 10 callers I should say, 1-800-514-5046. Folks, do this the right way. Have a good claiming strategy for Social Security. Have a good budget. Have a good income plan. Have a plan. A plan is not a diversification strategy. A plan is not

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

an asset allocation strategy. A plan is not five star mutual funds that's rated by Morningstar. That is not a plan. Those are products, those are tools. A plan is product neutral. It makes conservative assumptions.

If you call us at 1-800-514-5046, we're going to schedule a complimentary 15-minute phone consultation to find out if you're qualified to work with us, if you're a good fit. If it looks like after that 15 minute phone call we can add significant meaningful value to your financial life, then we might schedule another phone call and take the next step. The very first step, again, this radio show is not just about educating you, folks. It's about encouraging you to take action. You can have all the education in the world and if you're not willing to act on it, it doesn't amount to anything.

Erik Ramsey: Useless.

Jason Parker: It's useless.

Erik Ramsey: Right.

Jason Parker: It's baby steps.

Erik Ramsey: It can be so scary and when the market is looking so scary, taking steps that you haven't taken before, that can be terrifying. Have a lot of compassion for people entering retirement right now.

Jason Parker: Education is key. Who you get your advice from is very important.

Erik Ramsey: It really is.

Jason Parker: I would say one of the things you want to make sure is that whoever you choose to have helped you, make sure they have that fiduciary responsibility; they have a legal responsibility to act in your best interest and fiduciary. You want to work with a fiduciary. Again, that number is 1-800-514-5046. For 10 people, 15-minute phone conversation to see if we can add any value to your life and see if

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

you're qualified to work with us. 1-800-514-5046. Another great starting point, maybe people are still in education mode. They just need more information.

Erik Ramsey: Very true.

Jason Parker: There's no shortage of information, but "Sound Retirement Planning," my book. It's been well-received. People ... yeah, very well. By some people, I mean other people, they say this is not for me and that's okay too.

Erik Ramsey: I was personally hoping there was more pictures to color in. I'll be honest. I thought that would make things easier for me. Big words. You need a plan because the plan to manage the money, the money, it's a means. It's not an end. People need to have ... We all need to have a goal in our lives to say, "We're going to serve this purpose. We're going to go for this. We're going to make our lives meaningful. We're going to have significance in our lives." Doing that without a plan is so hard.

Jason Parker: Do you remember, what's that quote by Yogi Berra? Do you remember that one?

Erik Ramsey: "If you don't know where you're going, any road will take you there."

Jason Parker: That's the one I was thinking of: "If you don't know where you're going, any road will take you there." A plan gives you a road and it gives you a foundation to build on. What's that Bible verse about building a house?

Erik Ramsey: I don't think I can quote it directly, but Jesus said you don't start building a house unless you know you can finish it. You need to see the end from the beginning.

Jason Parker: That's right and also getting the counsel of people before ...

Erik Ramsey: Absolutely.

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

Jason Parker: The one I was thinking of though was do you build a house on sand or do you build a house on rock? What's your foundation? What is it going to be built on?

Erik Ramsey: Right. I think the idea there is the sandy parts of that world were in the gullies and they'd be great; actually fairly easy places to build. If you ever try to dig a foundation in sand or rock, it's easier to actually dig in sand, but man, when the rain comes and you get those flashfloods, very hard on your basement and if it's bad enough, your whole roof.

Jason Parker: I suppose if you're building a house on the same in Maui, as long as you have the right engineers and architects working for you, heck, I mean-

Erik Ramsay: It can be done.

Jason Parker: Anything is possible.

Erik Ramsay: You just don't want to be in the flashflood zone. That's the big one. Or in Maui, hot lava zones. I think that would be bad too.

Jason Parker: Folks, I want to just emphasize and say, again, I really appreciate you tuning in to this program. I know that Erik and I, we get a little rambunctious and enthusiastic and maybe a little bit sarcastic as we talk, but I know this is important. It's your lifetime of hard work. It means everything to you and it's important. We've got a lot of resources for you to help make this easier, to make your life better, and I hope you will take action to try to do that. Just say one more time, 10 people that call 1-800-514-5046, we will give you 15 minutes to be able to just have a quick phone call, see if we can add any significant value to your life.

Remember, this is Episode 035. If you'd like to comment, go to SoundRetirementPlanning.com. If you haven't joined our community, we just started the community. I think we're over 300 people now that our friends of ours on Facebook. The thing I'm excited there, Eric, is it

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035 Retirement Paycheck with Jason Parker & Erik Ramsey

allows for the dialogue. With radio, it's just us talking to each other and laughing at our own stupid jokes, but with Facebook, we have the ability to get people involved in the conversation. I want to know what's most important to other people so that we're doing this the right way.

Folks, we're out of time, until next week. This is Jason Parker and ...

Erik Ramsey: Erik Ramsey.

Jason Parker: Signing out.

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