

Market Update 2-24-14 & Retire @ 65..... Or Not?

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Thomas Cymer, CFP(r), CRPC(r)
President and Financial Professional
[Opulen Financial Group, LLC](#)

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Thomas Cymer CFP® CRPC® Presents:

WEEKLY ECONOMIC UPDATE

February 24, 2014

WEEKLY QUOTE

"Better shun the bait than struggle in the snare."

-John Dryden

WEEKLY TIP

As you insure your life, think about the death benefit of the policy and its potential uses after you are gone.

WEEKLY RIDDLE

I'm comprised of solid ground, and yet I see water all around. What exactly am I?

Last week's riddle:

Each morning, I show up at your feet, yet at midday I nearly retreat. No matter how fast you move, I follow. What am I? ?

Last week's answer:

Your shadow.

MORE MILD INFLATION

Consumer prices ticked up 0.1% for January while wholesale prices rose 0.2%. Analysts polled by MarketWatch expected both the headline Consumer Price Index and Producer Price Index to advance 0.1%. The bigger news item (perhaps) is that the Labor Department altered its calculation of producer prices for the first time in 36 years. The definitive PPI is now called the PPI Final Demand index, and it measures prices received for exports, services, federal government purchases and construction in addition to those of finished goods.^{1,2}

POOR HOME SALES TO START THE YEAR

The annual pace of existing home sales hit an 18-month low in January; the National Association of Realtors announced 5.1% monthly and yearly declines in residential resales. The good news? Inventory continues to expand (+2.2% in January) and the median existing home price was \$188,900 last month, up 10.7% from a year ago.³

OIL TOPS \$102, GOLD ADVANCES FOR A THIRD WEEK

NYMEX crude for April delivery settled at \$102.20 a barrel Friday, rising 1.9% for the week. Unrest in Ukraine, Venezuela, Turkey and other emerging markets also influenced the 0.4% gain for COMEX gold futures last week - the precious metal settled Friday at \$1,323.60 per ounce.⁴

NASDAQ ADDS TO YTD GAINS

The tech-heavy benchmark rose 0.46% during this past abbreviated trading week, wrapping up Friday at 4,263.41; in contrast, the Dow and S&P 500 each slipped a bit over four days. After a 0.32% weekly loss, the Dow stood at 16,103.30. The S&P settled Friday at 1,836.25, losing 0.13% on the week.⁵

THIS WEEK: Berkshire Hathaway, Hertz and Live Nation announce earnings Monday. Tuesday, the Conference Board publishes its February consumer confidence index, the December Case-Shiller and FHFA home price indices appear, and Big 5, Office Depot, CoreLogic, Metro PCS, Papa John's, Toll Brothers, Macy's, Home Depot, Alleghany, Molycorp, Dreamworks and Cracker Barrel all present earnings. Wednesday offers January new home sales numbers and earnings from Baidu, TJX, Starwood Hotels, JC Penney and U.S. Cellular. Thursday, Fed chair Janet Yellen reports to Congress and new initial claims figures and data on January hard goods orders arrive; quarterly results come from Salesforce, Wendy's, Hilton, Monster, Sempra Energy, Main Street Capital and Republic Airways. Friday brings the month's final University of Michigan consumer sentiment index, NAR's report on January pending home sales, and the second federal estimate of Q4 GDP.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-2.86	+16.01	+23.73	+5.16
NASDAQ	+2.08	+36.15	+39.16	+10.92

S&P 500	-0.66	+22.22	+27.69	+6.05
REAL YIELD	2/21 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.61%	-0.54%	1.67%	1.79%

Sources: USATODAY.com, bigcharts.com, treasury.gov - 2/21/14^{6,7,8,9}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

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Retire at 65 ... Or Not?

Your assets matter more than your age.

Provided by Thomas Cymer CFP® CRPC®

Isn't 65 the traditional retirement age? Perhaps, but baby boomers are modifying the definition of a traditional retirement (if not redefining it altogether). The Social Security Administration has subtly revised its definition of the traditional retirement age as well.

If you glance at the SSA website, the "full" retirement age for Americans born from 1943-1954 is 66, and it is 67 for those born in 1960 and later. (The "full" retirement age increases gradually from 66 to 67 for those born during the years 1955-1959.)¹

When Social Security started, the national retirement age was set at 65. In 1940, a 21-year-old American man had a 54% chance of living another 44 years (according to the federal government's actuarial estimates). By 1990, that chance had improved to 72%. For 21-year-old women, the probability of reaching age 65 increased from 61% to 84% in that same time frame. Americans also began living longer after 65. Increased longevity led to financial dilemmas for Social Security and the necessary redefinition of "traditional" retirement age.²

What do you lose by retiring at 65? The financial opportunity cost is considerable, and maybe greater than some baby boomers realize. If your full retirement age is 67, you'll reduce your monthly Social Security income by around 13.3% if you start taking benefits at age 65. Moreover, for every year that you refrain from claiming Social Security until age 70, your Social Security benefits will rise by 8%.^{1,3}

In addition to trimming your long-term retirement benefits, you may also forfeit some salary. If you are still working at age 65, you might be at or near your peak earnings level, and if that is the case, Social Security income may pale in comparison.

Think of life after 65 as your "third act" that needs funding. Do you think of 65 as late middle age? It may be. As the SSA website notes, about 25% of today's 65-year-olds should live to age 90. About 10% of them should reach age 95. Even if that doesn't happen for you, you should know that the average 65-year-old today can expect to live into his or her mid-eighties.⁴

Let those statistics serve as a flashing red light, illuminating two new truths of seniority. The first truth: for many Americans, "retirement" will represent 10, 20 or even 30 years of activity and opportunities. The second truth: to stay active and pursue those opportunities, retirees will need 10, 20 or 30 years of financial stability.

Most Americans haven't amassed the equivalent 10, 20 or 30 years of retirement savings. Many want to "stay in the game" a little longer: a 2013 Gallup poll found that 37% of Americans expect to retire after age 65, compared with 14% in 1995.⁵

How many Americans can work full-time until age 65? The bad news is that according to the same Gallup poll, the average retirement age in America is 61. The good news is that it was 57 in 1991. Assuming we keep living longer and healthier, it seems plausible that the average age of retirement might hit 65 - if not for the boomers, then for Gen Xers.⁵

Regardless of when baby boomers retire, growth investing will continue to have merit. Even moderate inflation erodes purchasing power over time, and its effects can be felt in less than a decade. Who knows: the portfolios held by 65- and 70-year-olds in 2035 might look more like the ones they hold now instead of those held by their parents generations before.

When should you retire? If that question is on your mind to any degree, consider an evaluation of your retirement readiness - a review of what you have, an estimation of what you need and a clear look at the possibilities before you. It should be time well spent.

Thomas Cymer CFP(r) CRPC(r) may be reached at 571-299-2053 or via email at tcymer@opulenfg.com. www.opulenfg.com

Citations.

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Week of September 30th, 2013

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Opulen Financial Group, LLC | 1818 Library St. Suite 500 | Reston | VA | 20190

