

MedicareSaver

“The Tortoise & Hare Facts of Investment Returns”

Promoting Predictable Planning: “No investor’s wealth has been or ever will be totally determined by market rates or returns. It is simply based on promoting planning using systematic savings strategies and knowing how to protect and preserve what you save.”

Consider this lesson in investment mathematics, if an investor starts with \$100,000 in the market, at the beginning of the year, and by year’s end (in a bad market like 2008) losing 50% of their account value, what percentage gain would the investor have to earn the next year to get back to their original principle amount of \$100,000.

Well to the surprise of many it is not 50%, 60% or even 75%, but a gain of 100% would be required in order to get back to the original starting amount after a loss of 50%. Who do you think benefited during this heart stopping loss of principal, obviously not the investor? But usually the investor’s broker posts a gain to their “checkbook” for management of these funds, even in years of losses, through their annual management fees, and expenses.

Relying on others to implement strategies when the risk is with your money may find you on an even shorter end of the stick. If there were just an average 1.5% annual fee for management of these same assets that lost 50%, the next year the investor would have to gain 106% just to get back to their original principle amount of \$100,000! This “real math” is usually never explained in this detail when the investor asks “are there any costs or fees if we invest this money with your firm?”

Study the following ten year hypothetical scenario of two investors, Mr. Tortoise and Mr. Hare, remember that fable? Each start out with \$100,000 to invest, and for this illustration we will not include any annual management fees or expenses mentioned above. Mr. Hare is more aggressive, wanting bragging rights on the hot equities accounts that give him double digit gains in his portfolio, along with the firm name that handles his investments. Mr. Tortoise on the other hand desires a safer place for his money, where he enjoys slow but steady fixed growth of a mere 5%.

Year	Mr. Hare Gains	Mr. Tortoise Gains
1	+12%	+5%
2	+10%	+5%
3	+11%	+5%
4	-9%	+5%
5	+10%	+5%
6	-8%	+5%
7	+13%	+5%
8	-8%	+5%
9	+12%	+5%
10	+11%	+5%
TOTALS	\$162,765	\$162,889



As you can clearly see in the illustration, with Mr. Hare's, double digit gains for 7 out of 10 years, with only 3 down years, Mr. Hare ended up having the same account value as the slow and steady Mr. Tortoise. Now let's show the same annual performance chart again below, but adding in a very low 1% annual fee subtracted from Mr. Hare's account each year. Now Mr. Hares account shows over \$15,000 less than Mr. Tortoise's account value, can you imagine what that figure would be if the fees were as high as 3-4% which some brokerage accounts charge? Which investor do you think has slept better at night knowing that by implementing a safe savings strategy he did not have to worry about ever having to play catch up? Which strategy would have you sleeping better at night?

Year	Mr. Hare Gains	Mr. Tortoise Gains
1	+11%	+5%
2	+9%	+5%
3	+10%	+5%
4	10%	+5%
5	+9%	+5%
6	-9%	+5%
7	+12%	+5%
8	-9%	+5%
9	+11%	+5%
10	+10%	+5%
TOTALS	\$147,852	\$162,889



The reality is, there are no real tricks to investing safely, no special computer programs, just be the investor who buys when the value of the investment is low and sell it when the value is high... if you can. The problem is, no one knows when this is going on, in today's economic climate. Corporations get Billions in Government bailouts at zero percent, to end up using to pay off overseas corporations for bad business, or payout executive bonuses the same week thousands get laid off. How do you determine the value of these companies? Bernie Madoff convinced thousands of investors over a 40 year period, that he had the "Midas touch" for managing investments. His investors "victims" boasted almost level 10-12% annual gains in the Madoff funds, and now thousands are left penniless and with nothing to support themselves in their retirement years.

Our clients prefer safe, secure, and sound strategies to protect and preserve their wealth in these turbulent times. If you would like more information on some of the strategies that we recommend for our clients on how to "promote, predictable, planning to prepare, protect and preserve" your wealth simply contact our agency by filling in the information provided below.

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