

# The Six Strategic Steps: Your Roadmap for Investing Wisely for a Lifetime

A PRACTICAL GUIDE



## Table of Contents

About the Sponsors .....	1
The Six Strategic Steps: Your Roadmap for Investing Wisely for a Lifetime .....	2
I. What are Your Financial Goals and Objectives? .....	2
II. Where You Stand Now: Your Personal Balance Sheet .....	3
III. Roadmap to Retirement: How Much Do You Need to Save? .....	4
IV. How You Can Get There: What Type of Investor Are You? .....	6
Checklist of Practical Steps .....	9
V. Resources .....	10
Notes .....	11

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The Evelyn Brust Foundation is a 501(C)(3) charitable organization established to educate the public about the importance of investing wisely for retirement and to increase awareness of the critical need for financial security.

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Founded in 1993, the Investor Protection Trust is a nonprofit organization. The primary mission of IPT is to provide independent, objective information needed by consumers to make informed investment decisions.

## Objective of this program:

Following the 90-minute educational lecture, our objective is to conduct one-on-one counseling sessions for those who register in advance and come prepared to discuss personal financial issues in a noncommercial setting. The goal is to focus on planning wisely for a lifetime. Specifically, this workbook will serve as a guide to help you envision your idea of retirement, determine how much money you need to save, and what your attitudes are towards investments and your willingness to accept risk. The temperament questionnaire is designed to help you determine what type of investor you really are and provides a framework for building a portfolio that is right for you.

The role of your counselor will be to look at your temperament results, review your objectives, and consider your current portfolio “mapping” and asset allocation. Your completed Personal Balance Sheet as well as copies of brokerage, bank and employee benefit statements, are integral parts of the process. The goal of your counselor is to reinforce the importance of diversification, help determine if you are properly allocated, and provide action steps at the end in response to questions or concerns.

*Note: This material is provided for personal, noncommercial educational and informational purposes only and it should not be considered as advice about specific investments to make, or used as a substitute for advice from a financial professional.*

# The Six Strategic Steps: Your Roadmap for Investing Wisely for a Lifetime

1. Focus *first* on goals.
2. Focus *next* on asset allocation, *not* investment selection.
3. Understand the downside risk.
4. Consider ways to improve after-tax returns.
5. Understand investment vehicles and their historical returns.
6. Always monitor investments.

## What Are Your Financial Goals and Objectives?

Typically, goals and objectives are determined around several key life components such as:

- Retirement income that would maintain current standard of living
- Retirement income that would increase current standard of living (i.e., hobbies, education, travel, club memberships)
- Money for education of children/grandchildren
- Money to leave as inheritance
- Money to leave for charity
- Risk management/estate planning
- Other (please specify)

How do you rank your top four goals, with 1 being most important?

Goal 1: \_\_\_\_\_

Goal 2: \_\_\_\_\_

Goal 3: \_\_\_\_\_

Goal 4: \_\_\_\_\_

What percentage of your money would you allocate to your goals?

Goal 1: \_\_\_\_\_%

Goal 2: \_\_\_\_\_%

Goal 3: \_\_\_\_\_%

Goal 4: \_\_\_\_\_%

= 100%

# Where You Stand Now: Your Personal Balance Sheet

Use this worksheet to calculate your current assets, liabilities and net worth. When you know where your current net worth comes from, you can see where your financial position is strong and where it is weak.

## ASSETS

Cash in savings accounts                     \$ \_\_\_\_\_

Cash in checking accounts                  \$ \_\_\_\_\_

Cash on hand                                     \$ \_\_\_\_\_

Certificates of deposit                     \$ \_\_\_\_\_

Money-market funds                         \$ \_\_\_\_\_

U.S. savings bonds                         \$ \_\_\_\_\_

Market value of home                       \$ \_\_\_\_\_

Market value of other real estate        \$ \_\_\_\_\_

Cash value of life insurance               \$ \_\_\_\_\_

Surrender value of annuities              \$ \_\_\_\_\_

Vested equity in pension plans             \$ \_\_\_\_\_

Vested equity in profit sharing             \$ \_\_\_\_\_

401(k) or 403(b) plans                     \$ \_\_\_\_\_

Individual retirement accounts             \$ \_\_\_\_\_

Keogh plans                                    \$ \_\_\_\_\_

Stocks   \$ \_\_\_\_\_

Bonds    \$ \_\_\_\_\_

Stock mutual funds                          \$ \_\_\_\_\_

Bond mutual funds                          \$ \_\_\_\_\_

Real estate investment trusts               \$ \_\_\_\_\_

Other investments                             \$ \_\_\_\_\_

Collectibles                                    \$ \_\_\_\_\_

Precious Metals                                \$ \_\_\_\_\_

Estimated market value of:

Household furnishings                     \$ \_\_\_\_\_

Automobiles and trucks                     \$ \_\_\_\_\_

Boats, recreational vehicles               \$ \_\_\_\_\_

Furs and jewelry                             \$ \_\_\_\_\_

Loans owed to you                            \$ \_\_\_\_\_

Other assets                                    \$ \_\_\_\_\_

**(A) Total assets**                             \$ \_\_\_\_\_

## LIABILITIES

Balance owed on mortgages                 \$ \_\_\_\_\_

Auto loans                                     \$ \_\_\_\_\_

Student loans                                 \$ \_\_\_\_\_

Home-equity credit line                     \$ \_\_\_\_\_

Other credit lines                             \$ \_\_\_\_\_

Credit Card bills                             \$ \_\_\_\_\_

Other bills                                     \$ \_\_\_\_\_

**(B) Total Liabilities**                         \$ \_\_\_\_\_

## CURRENT NET WORTH

**(A minus B)**                                 \$ \_\_\_\_\_

(Source: *Five Keys to Investing Success*, Investor Protection Trust and The Kiplinger Washington Editors.  
© 2005 The Kiplinger Washington Editors, Inc. All rights reserved.)

**“The vast majority of American investors do not possess important investor survival skills needed to build their savings into a retirement nest egg.”**

(Source: Securities Investor Protection Corporation (SIPC)/Investor Protection Trust (IPT))

# Roadmap to Retirement

Use this worksheet to get an estimate of how much you need to save each year in order to retire with the funds you need.

Name(s): \_\_\_\_\_

Date: \_\_\_\_\_

	Example	Yours										
<b>Retirement Goal</b>												
1. Annual income needed at retirement in today's dollars.	1. \$45,000	\$ _____										
2. Estimated Social Security retirement benefit in today's dollars. Enter the actual benefit amount from your most recent benefit statement or use the table below. To request a statement call SSA at 800-772-1213.	2. - \$12,264	- \$ _____										
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;">Annual Income in Today's Dollars</td> <td style="width: 25%;">less than \$25,000</td> <td style="width: 25%;">\$25,000 to \$40,000</td> <td style="width: 25%;">over \$40,000</td> </tr> <tr> <td>Benefit</td> <td>\$8,000</td> <td>\$12,000</td> <td>\$14,500</td> </tr> </table> <p style="font-size: small; margin-top: 5px;">For married couples, the lower earning spouse should enter either their own benefit based on their income or 50% of the higher earning spouse's benefit, whichever is higher.</p>	Annual Income in Today's Dollars	less than \$25,000	\$25,000 to \$40,000	over \$40,000	Benefit	\$8,000	\$12,000	\$14,500				
Annual Income in Today's Dollars	less than \$25,000	\$25,000 to \$40,000	over \$40,000									
Benefit	\$8,000	\$12,000	\$14,500									
3. Defined benefit plan from an employer (ask your retirement benefit adviser how much you will receive annually in today's dollars). This is not a 401(k)-type plan. Those plans go on line 7.	3. -\$0	- \$ _____										
4. Additional annual income needed at retirement in today's dollars. Subtract lines 2 and 3 from line 1.	4. = \$32,736	= \$ _____										
5. Choose the number closest to the age you plan to retire. Enter the factor on line 5.	5. x 16.4	x _____										
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;">Age of Retirement</td> <td style="width: 12.5%;">55</td> <td style="width: 12.5%;">60</td> <td style="width: 12.5%;">65</td> <td style="width: 12.5%;">70</td> </tr> <tr> <td>Factor</td> <td>21.0</td> <td>18.9</td> <td>16.4</td> <td>13.6</td> </tr> </table>	Age of Retirement	55	60	65	70	Factor	21.0	18.9	16.4	13.6		
Age of Retirement	55	60	65	70								
Factor	21.0	18.9	16.4	13.6								
6. Multiply line 4 by line 5. This is your retirement goal.	6. = \$536,870	= \$ _____										
<b>Amount Already Available as Savings/Investments</b>												
7. Employer savings plans, such as a 401(k).	7. \$64,037	\$ _____										
8. IRAs and Keoghs.	8. + \$16,000	+ \$ _____										
9. Other investments, such as mutual funds, stocks, bonds, real estate and other assets available for retirement.	9. + \$0	+ \$ _____										
10. Total retirement savings (add lines 7, 8, and 9).	10. = \$80,037	= \$ _____										

Example

Yours

### Future Value of Current Savings/Investments

11. Choose the number in the table that is the closest to the number of years until you retire. Enter the factor on line 11.

11.        x 4.32

x \_\_\_\_\_

Years to Retirement	5	10	15	20	25	30	40
Factor	1.28	1.63	2.08	2.65	3.39	4.32	7.04

12. Multiply line 10 by line 11.

12. = \$345,760

= \$ \_\_\_\_\_

13. Additional retirement savings and investments needed at time of retirement. Subtract line 12 from line 6.

13. = \$191,110

= \$ \_\_\_\_\_

### Annual Savings Needed to Reach Retirement Goal

14. Choose the number in the table that is the closest to the number of years until you retire. Enter the factor on line 14.

14.        ÷ 66.44

÷ \_\_\_\_\_

Years	5	10	15	20	25	30	40
Factor	5.53	12.58	21.58	33.07	47.73	66.44	120.80

15. Divide line 13 by line 14. This is the amount you need to save each year in order to reach your retirement goal.

15.        = \$2,876

= \$ \_\_\_\_\_

(Source: *The Financial Checkup*, Alena C. Johnson, Faculty, Utah State University. Reprinted with permission.)

“...low levels of savings and high levels of personal and real estate debt are serious problems for many people nearing retirement. Many households have ‘relatively little wealth to rely on for retirement income.’”

(Source: AARP Health and Retirement Study)

## What Type of Investor Are You?

Recent academic research suggests temperaments have much to do with investment behavior and risk tolerance—and can be modified through education.

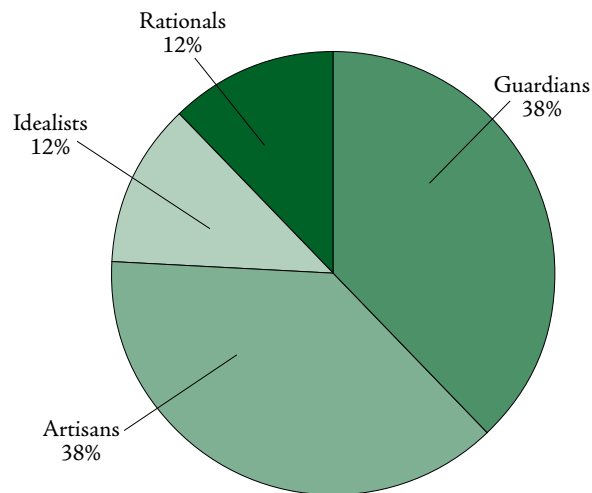
### Temperaments

Some people are shy, while others are outgoing; some have good self-control, while others are impulsive. Temperaments are measures that provide important insights into preferences and behavior. Temperaments combine “nature” with “nurture.” We know that some people are shy by nature and others are outgoing because even babies exhibit shy or outgoing behavior. But we also know that shy babies do not always grow into shy adults. Nurture can help shy children overcome their shy nature. Moreover, temperaments are likely to change as people age.

This program utilizes the Keirsey Temperament Sorter® as our measure of temperament. It is based on Keirsey’s temperament theory, and psychologists, counselors, and human-resources professionals have used it for more than twenty-five years. The Keirsey sorter classifies people in four basic temperament groups and sixteen temperament variants. The four basic temperament groups are Guardians, Artisans, Rationals, and Idealists, and brief descriptions follow:

- ♦ **Guardians** are the cornerstone of society, given to serving and preserving our most important social institutions. Guardians have natural talents in managing, and they use these talents to keep things running smoothly in families, communities, schools, churches, hospitals, and businesses. Guardians are cautious, loyal, and disciplined. They follow the rules and cooperate with others.
- ♦ **Artisans** have a natural ability to excel in any of the arts—fine arts, performing arts, athletics, the military, politics, mechanical and industrial arts, and the “art of the deal” in business. Artisans want to be where the action is; they are impulsive and competitive, and they believe that the next throw of the dice will be the lucky one. Above all, Artisans resist being tied, confined, or obligated; they would rather not wait, or save, or live for tomorrow.
- ♦ **Idealists** are passionately concerned with personal growth and development. Idealists strive to discover who they are and how they can become their best possible selves. And they want to help others make the journey. Idealists are naturally drawn to working with people, and whether in education or counseling, in social services or personnel work, in journalism or the ministry, they are gifted at helping others find their way in life, often inspiring them to grow as individuals and to fulfill their potentials.
- ♦ **Rationals** are problem-solving people. They might tackle problems in organic systems such as plants and animals, or in mechanical systems such as railroads and computers, or in social systems such as families and companies and governments. Rationals are rigorously logical and fiercely independent in their thinking. They are skeptical of all ideas, even their own. Often they are seen as cold and distant, but this is really the absorbed concentration they give to whatever problem they’re working on.

### Proportions of Temperaments in the General U.S. Population:





## Proportions of Temperaments in the General U.S. Population and Among College Students and Professors

	Guardians	Artisans	Idealists	Rationals
General U.S. population	38%	38%	12%	12%
Engineering majors	27%	8%	22%	43%
Science majors	10%	7%	26%	57%
Counselor education majors	10%	5%	76%	8%
Finance and commerce majors	43%	28%	10%	18%
Law students	30%	11%	16%	43%
Professors	30%	6%	33%	31%

Source: Fairhurst and Fairhurst, table B1, p. 304.

## What information helps you understand how to invest more wisely?

**Guardians** respect the opinions of authority figures such as well-known investors and scholars. They prefer orderly and linear presentations supported by citation of facts and have the temperament to follow through.

“You’re apt to play it too safe by keeping the bulk of your nest egg in cash or bonds—and risk being outpaced by inflation. You also tend to hold too little in foreign issues: Guardians greatly prefer domestic stocks...determine if you need more stock or foreign equities, which can actually decrease your overall risk by adding diversification.”

- Come up with specific goals
- Plot a long-term financial course
- Consider adding more foreign equities

**Artisans** prefer to learn by doing and appreciate opportunities for active involvement. They prefer anecdotes, humor, and opportunities to ask questions, and “trust your gut” is how they prefer to make financial decisions.

“If discipline is your weak point, use automatic investing. And commit, say, no more than 10% of your assets to satisfying your yen for gutsier bets.”

- Build a portfolio heavy in stocks, but research before you buy
- Diversify properly just in case “your gut” is wrong
- Understand impulse investing likely leads to too much risk

**Idealists** are nurturing and sincere and value highly personalized relationships. They prefer learning through the use of metaphors and analogies, and they “tend to focus on improving society rather than building personal wealth.”

(continued on next page)

“Remember, you can do more for others if you’re financially secure yourself. Launch a plan...that incorporates socially responsible funds, and sign up for automatic investing and bill paying. If you find stocks too dicey, consider dividend-paying stocks, which offer an income cushion.”

- Pay more attention to your finances
- Save and invest for the future
- Be aware of your tendency to avoid risk and invest too heavily in fixed-income assets

**Rationals** are in search of knowledge. They focus on the more theoretical features of investment and prefer presentations in scholarly language with precise definitions. They can be a bit too sure of their ability to “outthink the market,”—many lost badly when the tech stock bubble burst.

“You feel best about your finances when you’re ‘successful at implementing a complex strategy.’ You’re also in the group most likely to think you can outsmart the market. But remember, brains alone won’t do the trick.”

- Be aware you are the most apt to take a lot of risk
- Keep your self confidence about investing in check
- Reduce risk by shifting a percentage of assets to bonds and cash

*(Sources: Meir Statman, Ph.D. and Vincent Wood, CFA, Selected Excerpt from “Investment Temperament,” The Journal of Investment Consulting 7 no. 1, Summer 2004, and Money, August 2005)*

The sponsors wish to acknowledge Advisor Team for their work and our use of the temperament questionnaire. To determine your behavioral temperament online see [www.advisorteam.com](http://www.advisorteam.com).

“Educated consumers are also essential to well-functioning retirement systems—consumers must understand, for example, that Social Security is not intended to be an individual’s only source of retirement income...”

*(Source: U.S. Government Accountability Office)*

# Checklist of Practical Steps You Can Take

Date: \_\_\_\_\_

## Retirement Planning Priorities:

### Investor

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

### Investor (spouse)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

## Action Steps

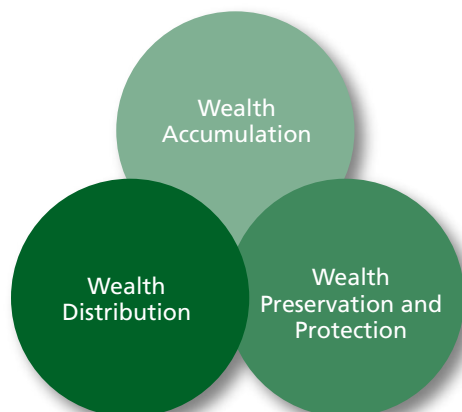
### Accumulation and Protection

- \_\_\_\_\_ Establish a written plan
- \_\_\_\_\_ Estimate required income in retirement
- \_\_\_\_\_ Estimate income sources
- \_\_\_\_\_ Calculate gap and savings plan to bridge gap based on asset allocation and estimated returns
- \_\_\_\_\_ Decide where to invest and then reallocate funds accordingly
- \_\_\_\_\_ Review 401(k) options, IRAs and Roth plans
- \_\_\_\_\_ Review estate plan if available
- \_\_\_\_\_ Review life and disability insurance benefits
- \_\_\_\_\_ Develop savings plan
- \_\_\_\_\_ Determine how investments will be monitored
- \_\_\_\_\_ Develop plan to rebalance annually

### Distribution

- \_\_\_\_\_ Review distribution plan and taxes
- \_\_\_\_\_ Review wills and trusts
- \_\_\_\_\_ Review estate plan

## Cycle of Wealth



## Resources

### AARP

[www.aarp.org](http://www.aarp.org)

### InvestmentHelp.org

[www.investmenthelp.org](http://www.investmenthelp.org)

### Investors Clearinghouse

[www.investoreducation.org](http://www.investoreducation.org)

### Investor Protection Trust

[www.investorprotection.org](http://www.investorprotection.org)

### Money Track, a series for public television

[www.moneytrack.org](http://www.moneytrack.org)

### Mymoney.gov

[www.mymoney.gov](http://www.mymoney.gov)

The Federal government's Web site dedicated to helping Americans understand how to save, invest, and manage their money.

### NASD—National Association of Securities Dealers

BrokerCheck

[www.nasd.com](http://www.nasd.com)

BrokerCheck is an important resource to learn about the professional background, registration/license status and disciplinary history of the financial advisers and brokers with whom you're planning to do business.

### North American Securities Administrators Association—Contact your state regulator

[www.nasaa.org](http://www.nasaa.org)

### U.S. Department of Labor

[www.dol.gov](http://www.dol.gov)

### U.S. Securities and Exchange Commission

[www.sec.gov](http://www.sec.gov)

### U.S. Social Security Administration—Obtain your Social Security benefits statement

[www.ssa.gov](http://www.ssa.gov)

SSA has been mailing statements to workers since 1999 showing an estimate of benefits. You can request yours free of charge by visiting the Web site or by calling 800-772-1213.







**“Financial literacy can be defined as the ability to make informed judgments and to take effective actions regarding current and future use and management of money. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges that come with life events such as...saving for retirement...”**

*(Source: U.S. Government Accountability Office)*



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