If You've Already Won, You Don't Need to Keep Playing the Game

Reaching the *EndZone*: A revolutionary approach to investing once you've achieved your financial objectives

By

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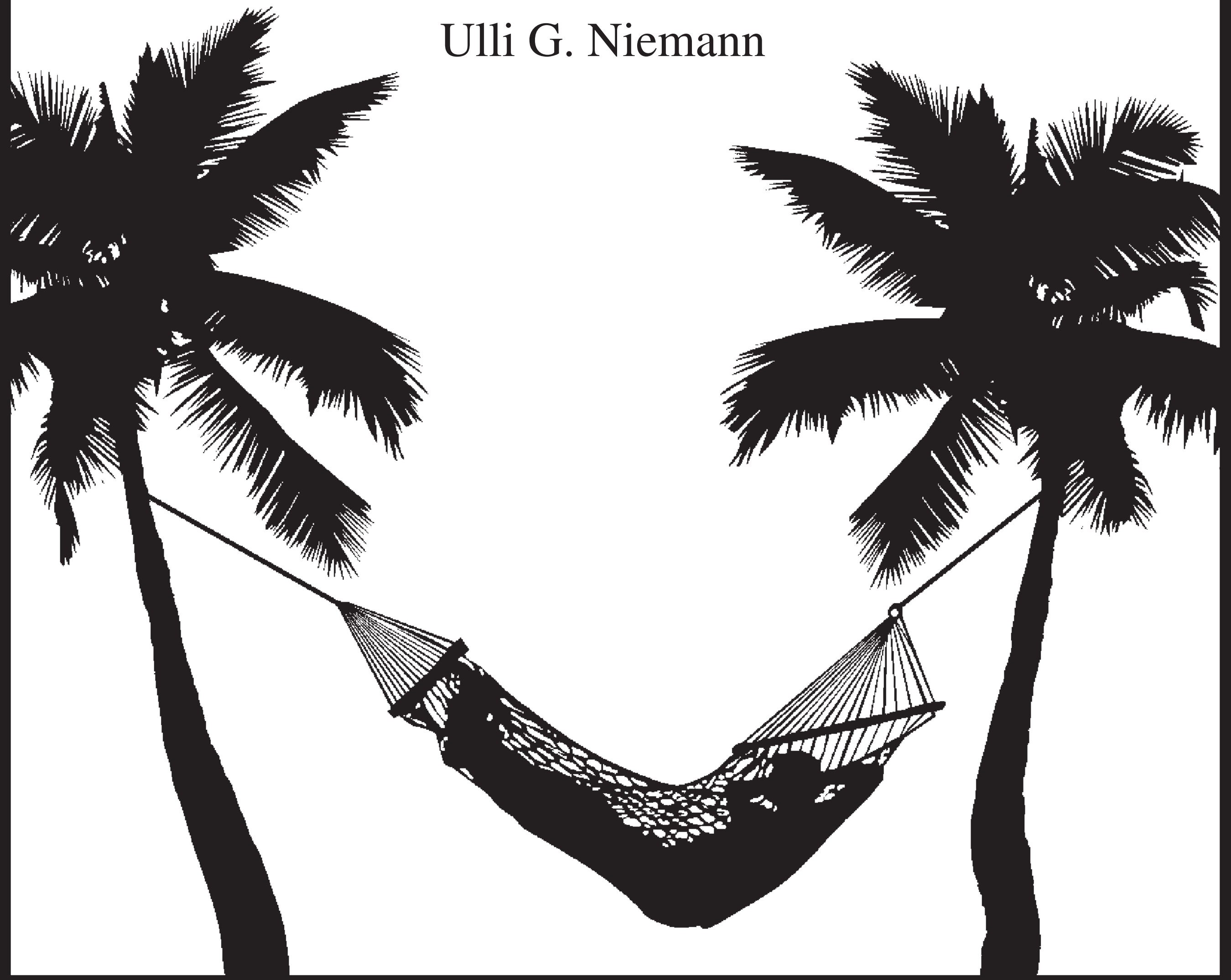

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The Dream Fulfilled

It's finally happened. You got a significant windfall—possibly from some stock options you cashed in, or from an inheritance of some sort—even winning the lottery. Or maybe you worked hard and built up a business that you were able to sell at a handsome profit. Perhaps you walked away with cash, or maybe you still own a piece of the company and continue to run it.

Whichever way it turned out, you have reached what I call the *EndZone*, *a state of financial independence that allows you to comfortably live off your investment income and assets-without ever having to go back to work or take financial gambles.*

The numbers involved for reaching such financial status will vary from person to person. Some consider themselves to have reached the *EndZone* with $5 million in assets after taxes, while for others it means anywhere from $10 million to $150 million, or more. No matter which number applies to you, the principles outlined in this report will work for anyone with at least $5 million.

New Goal, Revolutionary Perspective

When you reach the *EndZone*, the days of devoting every waking hour to the fulfillment of your dream are over. For all practical purposes you have no more work obligations or commitments you must keep.

Now it's time to reevaluate your life and figure out a new goal. While that involves some personal soul searching, it also involves a different way of looking at your investments. Breaking any old habit is hard, and this one is no different. You have stepped into the *EndZone* and new investment rules apply. This is true, no matter what everyone else is telling you (including probably every investment advisor who can get hold of you!).

As word about your good fortune has spread through the financial community, you most likely have been inundated by calls from brokers/advisors/planners wanting to meet to present you with the latest menu of choices as to what would be the best way to slice and dice your portfolio.

Don't listen to any of them! In fact, anyone trying to set you up with an equity portfolio involving MPT (Modern Portfolio Theory) should be shot!

Why?

Because you have reached the *EndZone*, you no longer need to play the risk game. You no longer *need* to do anything or meet with anybody. You've taken risks all your life. There was a reason for doing that then. You have accomplished that purpose. So…you're done. It's time for a totally fresh outlook on investing.

The new goal should be to set up your investments involving zero real risk and ideally some kind of a guarantee that your assets are safe. This is in stark contrast to what 99% of financial professionals will tell you. Nonetheless, if you are interested in a brutally honest opinion, then read on.

The 50 Million Dollar Man

How do I know that changing investment gears to a new extreme when reaching the *EndZone* is the right thing to do? My client Roger is living proof.

Roger had sold a portion of his business, which netted him in excess of $50 million after taxes. When we met, he told me that since the sale he had been hounded by just about every broker who could get access to his phone number (and in today's computer age, you can just imagine how many that might have been).

Roger, who will be still involved with his company for a number of years, told me that safety of his capital was of his utmost concern. I suggested a "barbell" approach of combining a variety of government securities, which initially would yield him some 3% per year free of State taxes. Historically, this return has moved up and down with the CPI index, but it can be fixed as well.

Roger considered it, then, though it was totally opposite to what everyone else was telling him, agreed. He opted for the flexible version which is currently earning him around $1.5 million a year. While the day-to-day value may fluctuate, repayment of the principal is guaranteed by the United States government.

I know you may scoff at the idea of such low returns—but hang on. Are they really low in comparison to other investments? Prepare to be surprised. Once you see what my research has revealed, I suggest that you will want to reevaluate your thinking and re-look at how your growth portfolio really has performed.

Lies, Mean Lies and Statistics

Wall Street's brokerage firms are masters of illusion. No matter the reality, they can present figures to make their firm look good. I still remember how, during bear market of 2000 to 2002, some companies boasted that they had beaten the S&P 500 handily.

Sounds good. However, when you looked closer, you realized that, while the S&P 500 had lost over 23% in 2002, this brokerage firm's portfolio had lost "only" 18%, thereby showing a "better" performance. This is how losing 18% of a portfolio's value can be turned into a chest pounding event.

If, in the past, you were invested in an equity type portfolio, you know that performance is always measured and compared to a benchmark, usually the S&P 500 index. Every money manager is trying to outperform that index and, while some do, most of them don't. For fair comparison you should never look at a bull market period only, you need to include a bear market as well, since almost anybody will make money when the bulls are on the run.

Here are some performance numbers for this century as far as the S&P 500 is concerned. Is the bottom line what you expected? Take a look at table 1:

Summary	S&P 500
2001	-13.03%
2002	-23.34%
2003	26.39%
2004	8.99%
2005	2.97%
2006	13.62%
2007	3.53%
2008-1st half	-12.81%
	6.32%

Table 1

If your portfolio performance matched that of the S&P 500, as shown, you would have gained *a grand total* of +6.32% during this 7-1/2 year period. Doesn't sound too bad. Except that it comes out to an average of a measly +0.84% per year.

Not only is that an abysmal return, you were also subjected to mind numbing drops in portfolio value as you lost over 23% in 2002. Sure, 2003 made up for that but, in 2002, when you were losing sleep and grousing at your spouse, who knew that was going to happen. As table 1 shows, over time, all the market anxiety and agony of portfolio volatility were simply not worth it—unless you like the adrenaline rush or feeling like suicide is a desirable option.

On the contrary, I bet that you were pretty upset with the performance, or lack thereof, which caused you discomfort that you didn't need with the end result that you got nowhere.

So why would you want to continue on this stress-filled and destructive path when you no longer have to?

Even as you are being wined and dined by your broker or the investment company's top management because you are a $5 million, $10 million, or $50 million customer, you are being sold down the river. The brokerage community is looking at you and seeing dollar signs. These guys figure they can siphon off about 1% a year in management fees, which comes to about $500,000 annually on a $50 million account. That's something they would most definitely NOT like to lose, and they will tell you anything you want to hear to keep you on the books and playing the game.

After all, during those 7-1/2 years, some of which were dismal losers, you provided them with an income of almost $4 million. How much did you net during that period? I'd bet it was a lot less than they did.

If you had followed the simple plan proposed here, you would have averaged roughly 3% per year, which would have totaled +22.5% over the same period vs. your meager +6.32%. That difference amounts to over $8 million. And that would have been made with no sleepless nights, no emotion swings, and no hefty commissions sliced out of it.

Also keep in mind that I am assuming your brokerage firm did better than the S&P 500 per year by at least 1% to earn their fee. If not, your 7-1/2 year return would have been negative. I was also extremely fair in my assessment by not including the year 2000, during which the S&P 500 lost over 11%.

But forget about hypothetical situations. Take 15 minutes and go over your investment gains & losses from 2001 - 2007. See where you fit in this picture and whether the approach suggested here would have put you ahead or behind where you are now.

How Many Millions is Ego Gratification Worth to You?

One of the biggest obstacles to switching gears to a more sensible and appropriate investment plan for successful people is their ego.

Hey, we are all human and like to show off our prowess when it comes to anything we excel at, including investing. Most likely your ego would try to compel you to chime in next time you were at a social event and some of the guests are touting their fully diversified portfolios and how well they've done in the recent bull market. So you might ask yourself how much that's worth to you in cold hard cash.

In Las Vegas everybody talks about their latest winnings. But nobody talks about their past losses unless you press the issue. It's the same with investing. Next time you hear a short-term success story, dig deeper and find out how they did during the last bear market. Chances are the story will take on a different tone. And, with the information above, you know that the overall long-term outcome, factoring in the lean times with the fat ones, was not exactly what it is being represented to have been.

The Most Crucial Question

Say you remain in equities and your $50 million dollars during one bullish period grows to $57 million, which would represent a 14% gain.

OK, now you're on cloud nine and want to tell everybody about it. However, in your new situation of having reached the *EndZone*, ask yourself this question: "*How will this gain change my life or even have any effect on my next decision?*"

Here's the answer: It won't!

You will not plan an extra vacation, eat out more often, buy another car or house, or purchase extravagant gifts for your family.

All talking about it will do is satisfy your ego—nothing more and nothing less. Once you accept this, you can start thinking about what investment plan you should implement that will bring you both long-term gain and peace of mind. Until you reach that point, however, you'll be fair game for the commission hungry army of Wall Street salesmen with their promises of big payoffs while telling you to pay no attention to the statistics behind the curtain.

The fact is, when you have an adequately large sum of investable cash, you have reached the *EndZone* and no longer need to gamble with your money or take any chances. Think about it.

A Radical Approach to Having More Spendable Cash

So far, I have given you some pretty unconventional thoughts. Here's another one that goes contrary to popular wisdom: If you need more income to live on, use some of your principal. You can afford to because you no longer are gambling with your principal balance. It will no longer decrease based on the vagaries of the market—which are inevitable over any long-term period.

Based on my suggestion, your $50 million will generate on average approximately $1.5 million per year. Let's say, for example, you and your family have designed a lifestyle which will require $2 million a year to live on. No problem, simply withdraw some of your capital as well to cover your costs.

How can I suggest such a thing? Here's the math.

In order for you to have reached the $50 million milestone in assets, you most likely are at least in your mid-forties; chances are you're much older. For arguments sake, let's assume that you are 45 years old at the time you called it quits and need $2 million annually to fund your desired lifestyle. (Most people won't need this amount, but I just want to show what happens if you do.)

If you do not invest at all, simple arithmetic tells me that if you withdraw $2 million per year from your capital, it would last 25 years. However, you are not going to just take money out, because you can generate 3% per year from safe investments. Based on that, your capital will outlast your life expectancy for sure. Let's be expansive and predict you'll live all the way to age 95, which means you need to cover some 40 years.

My calculations show that if you, on average, can earn 3% ($1.5 million) per year on your investments but are withdrawing a total of $2 million, your capital balance will have dwindled down to around $12 million at age 95. Of course, you will have lived quite well on your $2 million per year for 40 years.

If your wife outlives you, you still have a sizeable balance left to take care of her and/or for any donations to worthy causes you believe in.

However, let's be realistic, this is not what most people would do. Chances are that you will spend far less in later years and have more of your capital intact.

But What About the Kids?

If you are spending down your principal over the years, is there a need to worry about what will be left for the children? That depends on how you view your legacy to them. One very valid perspective is that the worst thing you can do for your children is give them a large amount of money at an early age or make a promise that a windfall is forthcoming. Based on case studies and statistics, this is counter-productive to supporting them in becoming happy, responsible adults.

I have a friend who dropped a large amount of money on his 19-year old son. The boy has done nothing with his life on any level other than morph himself into a 300 pound unhappy human whale. Don't fall into the same trap.

It is never too late to educate your children and pass along the wisdom you've gained from years in the trenches. Assure that they understand the value of money like you do. Be aware that anyone who has worked for it has a different point of reference than those who it is given to. Tread lightly on that subject, help them to get a good start in life, but do not shower them with tens of millions of dollars upon your demise.

You might take a lesson from Bill Gates, whose children will be well taken care of but the amounts allocated to them are very small compared to his total net worth.

Where Are We Now?

As I am writing this (the summer of 2008), the financial markets have moved into bear market territory according to my Trend Tracking Indexes, and the housing/mortgage/credit bubble is in bursting mode. Hundreds of billions of dollars have been written off corporate balance sheets with no end in sight.

Many banks will fold, commercial real estate is hitting the skids, and debt overload on every level from consumer to businesses, municipalities as well as State and Federal governments is reaching dangerous proportions. Something will have to give. It has already started on Wall Street.

During the first 7 months of this year, the S&P 500 lost over 14%. My guess is that if you were hanging on to some type of equity portfolio, you are feeling the pain right now. In my view, this bear has just started to rear its ugly head and has the potential to make the 2000 to 2002 period look like a walk in the park.

I don't care what equity portfolio you have, it's most likely set up for a primarily bullish scenario. If it keeps you up at night by showing too much volatility and not going in the desired direction, it's time for you to reconsider.

Remember, if you are in the *EndZone*—you no longer need to participate if you can make the shift in thinking! The choice is yours.

Feel free to contact me at 714-841-5804 or email me at ulli-niemann@att.net if you find this concept interesting and want to pursue it further.

About The Author

Ulli G. Niemann is a Registered Investment Advisor and has been advising clients on money matters since the 1980s. His advisory business focuses on helping investors grow their capital via his proprietary trend tracking methodology. He publishes a free weekly newsletter that is currently read by over 18,000 subscribers (www.successful-investment.com).

He writes a daily blog called the Wall Street Bully (http://thewallstreetbully.blogspot.com/) and lends a helping hand to high net worth investors who have stepped into the *EndZone* and are looking to preserve their wealth and capital by using a sensible non-Wall Street approach to better control their financial destiny.

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