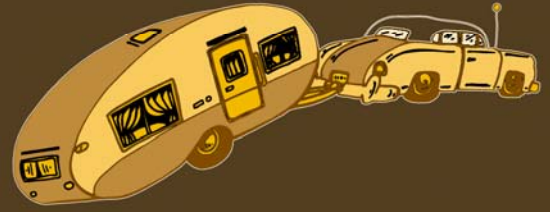


Retirement Rambler

SOUTHWEST
Retirement Consultants



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**Foot Bridge
Rock Creek Park
Washington, DC**

Rock Creek Park is a natural reserve nestled within the urbanized District of Columbia. Set aside as a national park in 1890, it begins at the Maryland state line and follows Rock Creek to its mouth at the Potomac river. The Hiker-Biker portion of the trail starts just below the National Zoo and winds along the scenic gorge that is ablaze with the hues of turning leaves in the fall. Full of historic sites, it's truly a national treasure.

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So What About Inflation?

Last issue we identified five risks with which any retiree must be concerned: longevity, inflation, asset allocation, withdrawal rate and health-care. The focus of this issue will be inflation.

My Grandmother Jordan was born in the late 1800's and lived a full 93 years. I recall conversations late in her life when one of the grandkids would show off a newly purchased toy or item of clothing. She would always want to know how much it cost, and, when told, would reply "Well, you should have been able to get that for a nickel."

Measured over the 20th century, inflation raised prices more than 20 fold. This means that what did, indeed, cost a nickel in 1900 cost

more than \$1.00 by 2000.

Inflation takes its toll on a retirement income stream in a number of ways. At a modest inflation rate of 3%, goods double in price every 24 years. If you retire on an income of \$75,000 per year today, in just 24 years you will need \$150,000 per year to maintain the same life style.

And who's to say that inflation will remain in the 3% range? Can you name the post-World War II president that had an average inflation rate greater than 10% for the 4 years of his administration?

Peanuts. Yes, it was Jimmy Carter with an average inflation rate of 10.4% for 1977-1980. Now what do you

suppose that would do to your nest egg?

But you say "Wait, I probably won't be buying the same goods and services in retirement that I buy today," and you are likely right. Problem is, you may be buying goods and services, like healthcare or retirement living facilities, that are rising in cost more quickly than general inflation.

The Bureau of Labor Statistics has been calculating an inflation rate for the past 20 years that is more aligned with the actual expenditures of those over the age of 62. It's the CPI-E (Consumer Price Index—Elderly—yuck!), and the results so far indicate that the costs of goods and services purchased by the age 62+ crowd grow more quickly (by about 0.4%) than the cost of goods and services purchased by the general population.

All this goes to say that any spending plan for retirement must include an annual inflation adjustment for at least those budget items, like food, shelter, and health-care, that are required for daily living.

Market Update

Index	Dec, 2007	YTD, 2007
Dow Jones Industrials	-0.66%	+8.89%
S&P 500	-0.69%	+5.49%
Russell 2000 (small cap US stocks)	-0.06%	-1.57%
MSCI EAFE (developed foreign mkts)	-2.25%	+11.17%
Lehman Bros Aggregate Bonds	+0.28%	+6.97%
3-Month T-Bill	+0.27%	+4.77%

Source: Morningstar, Inc.