

The More Things Change the More They Stay the Same

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As it relates to our individual financial future, this translation of a French proverb seems to hold as true today as ever. Finding that ideal balance between savings, protection and investing is the challenge we all face. This challenge is compounded because human nature has the tendency to forget about past market risk and losses experienced when we start to see gains return. The reality is that a financial plan that will not meet your needs and goals under any circumstance is no financial plan at all.

It is fair to say, today more than any time in the past, the distinguishing elements that differentiate savings from investments can be blurred and it is easy to lose sight of what the elements of risk truly are.

With the concentration of media advertising, investment oriented television programming and other marketing efforts; it is easy to see why so many people might be confused.

The law that enacted 401(k)'s as a retirement savings and planning tool went into effect in 1980. Since then 401(k)'s have become the primary source of retirement savings for most middle and upper income working Americans. Even with the latest additions of "retirement date target funds" most individuals don't fully appreciate the risks that most mutual funds are exposed to.

The media recently has been referring to the past ten years as the "lost decade". According to DowJonesAverages.com

many of the funds used in 401(k)'s the average 5-10 year returns have averaged close to zero. This underscores the inherent risk of not balancing savings and protection with our investments. The average working lifespan of most Americans is forty years and to "write off" a quarter of that in a "lost decade" places many of our citizens in a situation where they are in a greatly underfunded position for their retirement.

Balance and moderation combined with ongoing savings are necessary for the vast majority of Americans to achieve a sense of security as they age.

The economy has shown us over the past four decades that the tendency is to go from one cycle, *boom and bust*, to another. As in the past, high interest rates, skyrocketing equity markets, high yield bond markets all went thru their cycles and many individual experienced disappointment as cycles changed or bubbles burst.

Building the right mix of asset classes is critical if we are to achieve total and complete financial security.

Combined, an individual's savings, family protection and investments is what creates confidence and long lasting financial success.

Life Insurance as an Asset Class

The uncertainty of risk versus reward can delay development of a sound financial strategy so consider the smart alternative. Life insurance is an ideal vehicle to integrate into the idea of Modern Portfolio Theory as an asset class of substantial value, meeting all of the designated important criteria. Here's why:

- The death benefit provides cash when needed most
- The cash value provides the policy owner with living benefits similar to a fixed account with a guaranteed minimum return and may be used to fund expected or unexpected needs, although it may take a number of years to achieve substantial cash value build up with some policy design.
- When dividends (which are not guaranteed) are used to purchase paid up additional insurance, the guaranteed cash values may equal or exceed premiums after a number of years. What other financial vehicles are self-completing?
- The tax deferred cash accumulation can be accessed income tax-free
- The death benefit is payable income tax-free and quite possibly estate tax-free.
- Policy proceeds are typically beyond the reach of creditors.
- The policy is funded with affordable periodic payments that over time are inherently leveraged to a capital sum.
- Unique to life insurance with Waiver of Premium rider a policy is self-completing in case of disability
- Permanent life insurance can produce at least as favorable a long-term result with less risk within an equity and fixed income portfolio than a portfolio without life insurance

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