Raymond J. Lucia, CFP®

with Dale Fetherling

# The Buckets *of* Money® Retirement Solution

## The Ultimate Guide to Income for Life

"When you read *The Buckets of Money® Retirement Solution*, you'll know why Lucia is one of the nation's top retirement experts."
—SEAN HANNITY
radio/TV host and *New York Times* bestselling author

FOREWORD BY **BEN STEIN**

# The Buckets *of* Money® Retirement Solution

*"Over the years I've sat across the desk from literally thousands of couples, business owners, retirees, and pre-retirees who have entrusted their financial well-being to me and my company. I take that responsibility very seriously, and that's why I wrote this book.* The Buckets of Money Retirement Solution *provides academically proven strategies that work in good times and in bad. It is a formula for a successful retirement, built on many years of hands-on experience with real people, real money, and real issues. Talking to people about their investments on the radio and TV, or writing about the subject in magazines may make for interesting listening, viewing, or reading, but there is so much more at stake when a family's financial future rests in your hands. For almost 40 years, I've been entrusted to help people find the right solution. I hope this book will help you make the first step on the path to a secure retirement with* The Buckets of Money Retirement Solution."

—Raymond J. Lucia CFP®

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## THE ULTIMATE GUIDE TO INCOME FOR LIFE

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*with*

**Dale Fetherling**

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*To my loving wife,*
*Jeanne Lucia,*
*who has endured with consummate grace*
*both me and my years of seeking*
*the best retirement solutions for thousands of people*
*wanting to retire in comfort and safety.*

# Contents

# Foreword

Try this on for size. You are having a test for the first 40 or so years of your work life. The test is on the subject of financial planning and getting your retirement right. If you pass the test, you get to live in a lovely home on a golf course or overlooking the lake, and you get to spend your days looking for your ball in the rough. At night you get to eat anywhere you want and then have a comfortable, secure, and restful sleep. You get to give money to your kids and grandkids and give them a leg up in life. You have the best medical care money can provide (Medicare is nowhere near comprehensive or free, by the way.) You cheerily and effortlessly pay your bills as they arrive. And you get to have the feeling you did something smart with your life. That's door one.

If you fail the test, you get to live in modest, cramped, noisy quarters. You get to worry about whether your wife is safe walking home from the Safeway. You get to feel sick when the monthly utility bill comes in the mailbox. You get to have to avoid creditors and juggle debts. You cannot sleep from fear and worry. And there is someone you cannot look in the eye when you get up in the morning and brush your teeth: yourself, because you know you screwed it up big time, this one and only life of yours. That's door two.

Which outcome would you like?

If it's door one, you would do well to take this book you now hold in your hands and take it to the cashier and buy it, go home, and start reading it and keep on until you are finished; then start the very next day doing what it says to do. Here's why I say this: I, your humble servant, have been following money matters since I was a teenager. That was roughly 50 years ago. In all of that time, I have never met anyone who knows the subject of personal finance as well as Ray Lucia. There are undoubtedly people who know more about monetary policy and some who know more about tariffs and trade. But on the subject of how to deploy your savings so that at the end of the day you are well taken care of, safe and secure, there is simply no one who is quite at the level of Raymond J. Lucia.

Ray has many insights: that you should arrange your investments to pay as little tax as possible. That you should diversify your stock market assets as widely as possible within the bounds of good sense. That you should make sure your money is in the hands of people who know more than you do. That you should be extremely cautious about leverage.

But he has one gigantic insight that tops all of these. It might be summarized thus: Stocks for the long run are the peerless investment. But we live not only in the long run but also in the short and medium run. In those runs, stocks can be crushingly disappointing and can ruin your life.

Yes, over multidecade periods, stocks outperform bonds and commodities and real property (at least in the postwar era). But in the short run, stocks can fall not only seriously, but calamitously. In periods of as long as a decade, stocks can have a zero or close to zero return. In periods of a few years, stocks can fall by 55 percent: we just saw it happen from the fall of 2007 to March of 2009. For those who had trusted in the stock market to always bring them out smiling, the days and nights were terrifying.

If families had bought at the top in 2007 in the stock market and desperately needed to cash out in late 2008 to March of 2009, they were devastated by their losses. The fear was tangible.

The genius—and that is not too strong a word—of Ray Lucia is that he saw all of this and had his investors "bucketized"—that is, had their savings in various different buckets of money—bonds, REITs, annuities, cash—such that they could ride out the stock market hurricane and get through to the daybreak.

Investors who trusted solely in stocks for the long run saw their hopes and dreams disappear, their confidence turn to terror. Investors who were "bucketized" never missed a moment's sleep. They did not do as well in the Great Recession as in boom times, but they had tiny losses and are back to solid gains as the stock markets have revived for now . . . and they are prepared to go through it again and again and always have high confidence that they will get through to the safe harbor.

That is Ray Lucia's great gift to his investors: he has them so diversified inside *and outside* the stock market that they can keep on trucking even in very bad times. He has the data to prove it.

You are probably skeptical, and you should be. Promises in the investment world are easy to make and hard to keep. But keep reading. If you can find the flaw in this investment concept, you are way ahead of me. Do not take it on trust. Read this. Then call or write to Ray and ask him for the data to back up his strategy. Analyze the data, and compare it with any metrics you choose. You will be amazed at how sound Ray's plan is.

It really takes diversification to a level of caution and prudence one rarely sees. Ray takes you to a state of caution that is, sadly, desperately needed in the real world of financial slips, falls, scoundrels, and poor governance. It is a level rarely achieved by money managers. And you need that level. But, again, don't take my word for it. Read this and see how it works for you. And if you find a better way to invest, go for it. You won't hurt my feelings. In fact, I want to hear about it. I might put it this way: If you can find a way to stay afloat in water by yourself indefinitely without a life jacket, let me know. Ray's ideas are the life jacket.

But you'll never know how well it works unless you keep reading. And remember: door one or door two?

—Ben Stein

# Acknowledgments

My family has been the heart and soul of my company, and the inspiration behind my professional pursuits since I went into the financial services industry almost 40 years ago. It is to them—and also to our extended family of friends, associates and advisors we have been graced with through the years—that this book is dedicated.

I would like to express my deepest gratitude and enduring love to my wife of 37 years, Jeanne, who has been by my side for all the best moments of my life. Jeanne is the matriarch of the family, who has nurtured it through the generations with her grace and kindness.

To my eldest son, Ray Jr., who recently became President and CEO of RJL Wealth Management. While I'm proud to have founded Raymond J. Lucia Companies, a very successful investment management and financial planning firm, I'm even more proud of Ray Jr's leadership, his accomplishments, and his potential to guide RJL Wealth Management toward a bright and prosperous future. In his hands, and under the direction of his brilliant mind, he will be more than a custodian of my professional legacy, he will be an innovator that will shape the industry for generations to come.

To my children, Alana and Dom, who work alongside me every day. Their choice to join my company gave me the proximity to my kids that other parents can only dream of. And to my daughter, Niki, who inherited the artistic aspect of her father's genetic code; her passion and creativity are inspiring.

To my big brother, Joe, who has worked tirelessly alongside me and has stood by me through every trial and tribulation. Joe embodies the spirit and personality of the company we've built together.

To my nephew, Joey, who leads by example with his commitment and organizational skills, and has proven himself to be one of the sharpest minds in the industry.

To the Brain Trust, the talented team I work with every day on my radio show: Rick Plum, the smartest CFP in the country; Rob

Butterfield, the most knowledgeable tax attorney on the planet; and John Dean, the best radio producer and foil a talk show host could ever have . . . those three hours a day are truly priceless.

To Melissa Dotson, who has worked with me from Day One, and continues to be a valued and trusted partner after almost 40 years together. To Trina Jensen, my executive assistant, who makes every day easier for me because of her reliability and thoroughness.

To each of the *Buckets of Money* advisors, for their diligence in learning and studying the strategy, and having the discipline to consistently implement it on behalf of every client they serve.

To our profound colleague, advisor, and sage, Ben Stein, an unparalleled mind in the world of finance and economics. It is truly an honor to have you as a confidant, and as a part of the family.

Finally, this book is dedicated to my parents, whom I'm still blessed to have in my life. I hope we're all making you proud of what we've accomplished, and more importantly, of the kind of people who you've shaped us to become.

# Introduction

## LET'S GET YOUR FUTURE BACK ON TRACK

It's long been said that a rising tide lifts all boats. But the financial tsunami that hit us in 2007–2008 seemingly sent all vessels to the bottom—stocks, bonds, commodities, real estate . . . you name it! Almost no investment was left unscathed. And if you're like most of the people I talk to, you may feel as if your retirement plan has run totally aground. How will you possibly get afloat again?

Many workers and retirees have lost confidence in their ability to fund or enjoy a financially secure retirement. In fact, according to a recent survey by the Employee Benefit Research Institute, just 13 percent of workers claim to be "very confident" about having enough money for retirement. That's the lowest percentage of workers feeling that way since EBRI first began asking the question 15 years ago. What's worse, some 44 percent of workers are either "not at all" or "not too" confident about attaining that secure retirement.

Such a drop in confidence isn't hard to understand. The average retirement account lost a third of its value—and often more—in calendar 2008. In fact, the last couple of years have been among the toughest in history for investors. Once-proud companies like Lehman Brothers, Citigroup, GM, AIG, and Chrysler have gone belly-up or nearly so, and many others struggle. Government intervention has reached epic levels. Headlines often have been bleak, and selling at times seemed to be indiscriminate.

So whether you were loading up on stocks to fund a long retirement, trading online to time the market, or even relying on a buy-and-hold strategy, you probably lost a lot. What's more, many people saw the value of their retirement assets fall even as their debt rose. And in too many cases, their jobs were lost or replaced with lower-paying ones.

"By year end," as Warren Buffett so colorfully stated, "investors of all stripes were bloodied and confused, much as if they were small birds that had strayed into a badminton game." So it's not surprising that another recent survey, this one by Bank of America, found that more than half of respondents planned to change their investment strategy. And that's good. But it begs the question: Change it to *what*?

## A New Strategy?

Well, you could start investing with Bernard Madoff and get his consistently high returns in good years and bad. *Whoops!* Scratch that. That option is no longer operative, as they used to say in politics. Or, you could plunge into, say, tech stocks . . . *whoops*! again. We all saw that movie several years ago.

Then there's real estate. Well, maybe not. You've also likely seen your home equity shrink. If you were lucky, you avoided foreclosure or a short sale, but even so you can be forgiven for lacking a lot of confidence in the real estate market these days.

Or . . . here's an idea: How about gold? A lot of people are talking up gold as if we're entering a new Dark Ages from which only guns, stockpiles of canned food, and hoarded amounts of the yellow metal will save us. Magazine covers, TV commercials, and the guy down the street—they're all beating the drums for owning gold—gold coins, gold-mining companies, gold bullion . . . almost anything that glitters.

But if you do a little study you'll see it's clear that a little gold goes a long way.

As an investment, gold's average annualized returns have only barely kept up with inflation. Folks who bought gold 30 years ago are just now getting their money back.

## The Fickle Fads

In fact, you probably want to avoid *any* hot trend. I was thinking just the other day about how fickle financial fads can be. In my experience, the more chatter and the more hype, the more likely some bubble is just about to burst.

Think about it. When your neighbors are bragging about their soaring home equity, falling home prices are probably just around the corner. When your auto mechanic wants to share stock tips, you can bet a bear market looms. When everyone's atwitter about dot-coms . . . well, you remember that era and know how that one ended.

My strong advice—be wary of the latest investing trend, whatever it is. Usually by the time word of it hits the mainstream media or becomes the buzz at the local café, that asset has already peaked and is about to plummet. The truth is, financial publications, the mainstream press, and the population at large is almost uniformly wrong about the timing of the newest cutting-edge investment opportunity. (Magazine covers, for instance, are infamous for being "contrary indicators." Perhaps the most celebrated example is a 1979 *BusinessWeek* cover heralding "The Death of Equities." Soon after it appeared, a roaring 20-year bull market in stocks began.)

## Stick with Cash?

Okay, you say, if a lot of the much-touted investment ideas don't measure up long-term, then maybe the best thing is to just stay with cash. Put it in the bank, in money market accounts, in Treasury bills, under the mattress or buried in an old Mason jar . . . *somewhere*?

No-o-o. That's also bad. For one thing, there's a real possibility of high inflation in the coming years. And even modest inflation eats away at what your cash can buy. Even with inflation at 3 percent (which is *much* lower than many predict), the purchasing power of a dollar is cut in half in a little more than 23 years. Yes, you'd still have your greenbacks in, say, 20 years. But, no, they very well may not buy enough of what you'll need in retirement.

But I sense what some of you may be thinking: "What if I just stash my cash, then get back in the stock market when the next upturn begins?" That sounds good. But it's not good, sound reasoning. Nobody's that smart. There's an old saying, "They don't ring a bell when the market hits a bottom" (or, for that matter, a top). In other words, nobody can pinpoint when stocks will take off.

And often the start of the upswing is sudden and sharp. (On average, the S&P 500 has risen 38.1 percent in the first 12 months after the end of a bear market, according to the respected research firm Ibbotson Associates.) So when that upswing occurs, you don't want to be left behind earning, say, 1 percent or 2 percent in a savings account or have all your money locked up in Treasury bonds.

My recommendation: Don't let the present turmoil and uncertainty lead you to do something you'll regret. Unless you're independently wealthy, you probably need stocks to meet your long-term investment objectives. And you'll most likely need to own them when you're least likely to want them. Take, for example, early March 2009. Then it seemed as if everyone loathed the stock market, which had plummeted more than 50 percent from its high. In fact, many fools pulled out of the market then, determined never to be burned again. However, they left as much as 70 percent returns on the table as the market went on to post its best rally since 1933.

## What Else Is There?

"But, Ray," you're probably saying, "if I can't effectively time the market and I can't just sit on cash, if real estate is fluky and precious metals are unreliable, and if just buying and holding stocks hasn't worked out, what in the world should I do?"

I'm glad you asked that. Because that's what this book is about: helping you chart a course out of your financial shipwreck. I'm going to give you a strategy that's battle-tested and time-tested, tested in fact in more than 9,000 individual portfolios totaling more than $2 billion. It's been proven, hands down, to be the best way to safeguard your retirement holdings. Yes, it involves the stock market but also other kinds of assets as well. And the key is how you allocate those assets and how to choose to draw them down to finance your sunset years.

## Time-Tested Principles

I had a caller to my radio show tell me the other day that some experts are saying the next 10 or 20 years will be a downer for stocks. "So," he asked, "isn't it folly to be in the market at all?"

Well, what I told him was if you find a dozen so-called experts, you may get a dozen opinions. For instance, a few years ago, one well-known "economic futurist" wrote a best-selling book predicting the Dow would hit 44,000 by 2008. We now know he was off by about 34,000 points.

The truth is, neither you, I, nor anyone else can accurately predict the next 20 years. But we have a choice: We can follow time-tested investment principles, or we can fly by the seat of our pants (or by the seat of some guru's pants). I think both you and I know which of those is the better option.

When there's a stock market meltdown, such as in 2008, a lot of investors say, "That's it. I'll never invest in stocks again." Some flail around wildly, others panic or go catatonic. But the wisest course is to come up with a strategy and execute it as fully and calmly as possible. The results will likely surprise you. And this book aims to give you that strategy. It's a strategy designed to help shield you from the short-term ups and downs of the market. It can give you the courage and discipline to stay invested no matter what the future holds and thus let you plan your retirement years with greater confidence.

## How This Book Unfolds

Filled with examples and what I believe are clear, specific calculations, the book unfolds in four parts: First, you'll be encouraged to regain your balance as the first two chapters explain the changing financial landscape and how to prepare for whatever the economic future holds. In the second section, three chapters explain in detail the *Buckets of Money* plan, including how to choose the proper investments and execute the strategy.

The third section offers refinements on that plan. Specifically, it details how annuities, real estate investment trusts, personally-owned real estate, and taxes can come into play in your *Buckets of Money* plan. And, finally, the fourth and last section explains how to create a workable withdrawal strategy once your plan is in place and working.

An epilogue then tops off the book with a favorite theme of mine: how to keep all this money stuff in perspective by making sure your retirement is filled as well with people and interesting pursuits. Enjoy!

## The Importance of a Plan

Just doing nothing and hoping your financial situation will improve doesn't work. That's because, as I like to say, hope is a virtue, but it's not a strategy. Which reminds me of an old joke: A guy dies and goes to heaven where he confronts God. "Hey," he says, "couldn't you have at least let me win the lottery?" God replies: "Couldn't *you* have at least bought a lottery ticket?"

The point is that doing nothing and just hoping things will get better really won't hack it. You've got to come up with a plan. And the one I'm going to give you—the *Buckets of Money* plan—is the best idea I've developed (or seen anyone else develop) over my more than 30 years of being a financial advisor.

Here, in barest essence, is how it works: Put your money into three piles, or "buckets," and invest each in a different way. Bucket 1, the Income bucket, contains safe, low-growth vehicles like CDs, money markets, Treasuries, life annuities, or short-term bonds or bond funds. Drawing down both principal and interest from this bucket provides a stable income stream for a certain period of time.

Bucket 2, the Relative Safety bucket, is invested only slightly more aggressively and holds assets such as mid-term bonds, Treasury Inflation-Protected Securities, mortgage-backed securities, fixed and indexed annuities, and corporate and municipal bonds. When Bucket 1 is depleted, empty Bucket 2 into it for another specified number of years. Meanwhile, Bucket 3, the Growth bucket—reserved largely for real estate, stocks, and alternative investments—continues to have time to grow.

By the time Bucket 1 is depleted for the second time, Bucket 3—if the stock market and real estate meet historical norms—should provide a nice chunk of change to allow you to rebucketize and see yourself through your retirement years.

This plan gives you the courage and the discipline to take advantage of the historically proven growth in long-term investments. All in all, this plan is akin to a sports car that seats six, approximating the best of both worlds—in this case by being a conservative strategy that's also growth-oriented.

Of course, lots of variations and refinements exist, and we'll soon get into all those. But the important thing with the *Buckets of Money* plan is that as you grow older others may have to make do with less and less, but you—having mastered this strategy—will potentially be growing stronger and more secure. You'll be able to sleep at night because you'll be following the science of money, not the art of speculation.

## My Bias

Before I get into the nitty–gritty of this strategy, though, let me give you a sense of where I'm coming from. Yes, I'm a CFP, or Certified Financial Planner professional. I'm the founder of Raymond J. Lucia Companies, Inc., the predecessor of RJL Wealth Management, a highly successful investment-management and financial planning firm, RJL Wealth Management (run by my son Ray Jr., a CPA). In fact, I've spent most of my adult life helping people safely retire.

I've been in the financial services industry for more than three decades. I'm the host of a nationally syndicated money talk show and have, in conjunction with all the advisors with whom I've worked, invested some $2 billion on behalf of about 9,000 clients.

I read obsessively on financial matters and talk to a lot of people on my radio show and at seminars. But I'm not a finance professor, nor do I consider myself an expert researcher by any means. My particular expertise lies more in the practical realm of dealing with real people retiring and investing their money strategically so their bank account doesn't expire before they do.

My bias is that I like *facts*, not pontification. And I like hard numbers, not abstractions. And that's what I'm going to try to give you as I explain this strategy. This sets me apart from a lot of people in the financial field. In fact, let me tell you a story that will make the point.

Not long ago I was on a panel discussion with Ben Stein, the writer/economist/actor, and two other economists. These other two guys, though probably quite brilliant, were talking well over everyone's head, including mine. I could tell Ben also was becoming very frustrated with their lengthy and technical answers to relatively easy, straightforward questions. And I could barely get a word in edgewise.

Finally, a young lady in the back of the room stepped up to the microphone and asked a question of the panel: "I'm 25 years old," she said, "and I'm wondering with the Social Security system going broke, will my husband and I ever be able to afford to retire?" For me, this type of question is a big, fat pitch right over the plate.

But before I could answer, one of the economists to my left beat me to the punch and began a dissertation about how many working people theoretically will be required 40 years from now to support her Social Security payments. Then the economist to *his* left began arguing with him about the politics of the Social Security system. Ben was fidgeting in his chair, disgusted with their lack of attention to the simple question: Will she and her husband be able to retire?

Finally, a split second of silence appeared, so I jumped in.

"Young lady," I asked, "how old did you say you and your husband are?"

"Twenty-five."

"And when would you like to retire?"

"Age 55 or so," she replied.