“Drive for show, putt for dough.”

The lessons learned on the golf course can help you profit in retirement

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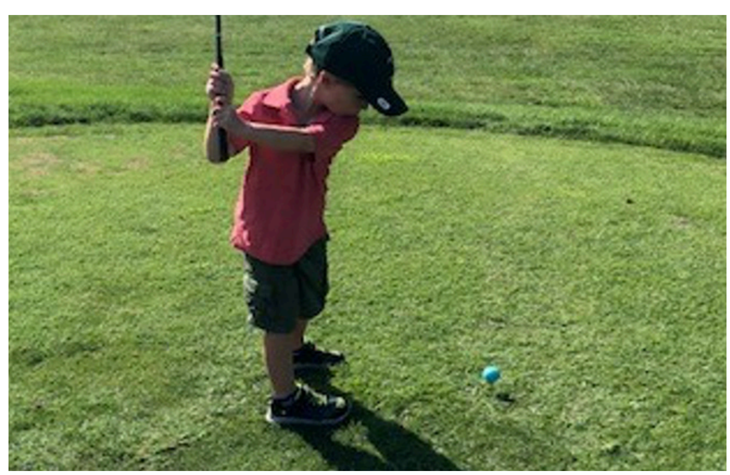
Tee Shot:

For golfers of all levels, standing on the tee box looking down a 420-yard, dogleg right, par 4 is one of the most exhilarating views on a golf course. As they pull out their oversized, titanium headed, stiff shaft, “Big Dog,” thoughts of, “Grip it and rip it,” fill their head. They place the ball on the tee while visualizing a perfectly hit 310-yard drive that has a slight fade as it descends. Of course, they have never performed such a feat, but someday, the golf gods might surely reward them for the many years of disappointment with this surreal experience.

If you think about it, the tee shot experience runs many parallels with the early stage of retirement planning, commonly referred to as “The Accumulation Phase.” As you start out, you are full of optimism, “Wow! This Small Cap fund was up 50% last year and so was the technology fund. A 50% return would be fantastic; I am going to put all my money in those two. I have time, so I can be really aggressive. But my new car payment is killing me right now, I better only start by contributing 2%. Once I have more money, I will do more.”

Just as in golf, there is a risk-reward profile to investing. One shot does not make a score, just like one investment does not make retirement. If you take on a high level of risk, it can work out and leave you in great shape. However, a high level of risk can also bring other “Hazards” into play. In golf you have “Out of Bounds, Woods or Water,” requiring you to lose ground or even start over. In retirement planning, losing the investment, receiving inferior returns, or simply not saving enough will lead to a major setback. Sometimes the smart thing to do is play it a little safer. Hit a 3 wood or an iron. It might not go as far, but is more likely to keep you in the fairway. Likewise, maybe it is a better idea to take a more diversified approach to your retirement and, although you have a lot of things you need to do in life, increase your 401(k) contribution rate to an uncomfortable, but sustainable 5% with an automatic annual step-up. After all the best way to have more money in retirement is to save more.



Taking the safer approach might be easy to do when no one else is around, but when you have to hit following a 5'5" skinny no-name who just stroked one 290 yards down the middle of the fairway, it can be a little more challenging. The competitive juices start to flow, you grip that club a little tighter and swing a little harder. "If he can do it, so can I." What he doesn't tell you is that he only hits 1 out of 5 like that and rarely breaks 100. So now your ego takes over and you forget about your plan of attack. Investing tends to be no different. People are always eager to tell you about how they just doubled their money on silver, or how they made more flipping a house then they did all last year at their job. Of course, they forget to tell you how they bought Game Stock and are now down 50% or how they currently have 3 half finished homes that they can't get financed.

In golf and investing, you need to play your own ball. No matter how well the other guy is doing, it only matters how you are doing because those are the results that matter.

When professional golfers step up to the tee, they see all the problems such as traps, water and trees. They survey the landscape, block out all the trouble, pick a spot, and hit the shot. Amateurs have a slightly different approach, they survey the hole, they see the trees, traps and water, but instead of focusing on where they want to go all they concentrate on is, "Don't hit it in the water," or "Don't hit it out of bounds." So what frequently happens, they either hit it out of bounds or shank it 50 yards. Likewise, in the accumulation phase there can be many distractions that can cause you to lose focus –news headlines, wanting a bigger house, even sending your child to college. These distractions can cause you to stop saving and derail you from your plan. Just like the tee shot, fear and nerves can influence your decisions, you must be able to control those feelings and focus on your ultimate goal.

Approach shot:

Once you are off the tee, things get a little more complicated. The terrain has changed, and your next decision is based on how well you navigated your tee shot. If you gambled and lost, you could experience a set-back. If you played too conservatively, you might not be able to reach the green. Even if you hit it perfect, you still have to

execute the next shot. The emphasis is now on precision and accuracy. There are still obstacles and hazards you must factor in such as wind, sand traps, and potentially water. So, you must concentrate and fully commit to the shot. If you got off the tee well, things seem a little easier. It is all about hitting the right shot. It can't be too long or too short, and if you screw it up, you waste the beautiful drive you just hit.

The approach shot in golf is not much different from the approach to retirement. As you start to get closer to "The Big Day," your decisions need to be more accurate. If you did a nice job in the accumulation stage the next stage is a little easier, but you still need to focus. If you screw it up, all the good you did earlier could be for nothing. To be successful, you need to read the economic environment and evaluate your situation. How much income will you need? How much risk should you take on? Are you on the right path? Just like it doesn't make sense to hit a 5 iron when all you need is a pitching wedge, similarly you shouldn't be risking your retirement on a high-risk biotech stock, when a corporate bond will work just fine. Many people become obsessed with growing their money well beyond what they need. In doing so, they take on a high level of risk that is potentially detrimental to their retirement. Others become so afraid of any loss that they take on no risk and end up short of their goal. Just remember your goal- to accumulate enough wealth to have the retirement you want- no more, no less.

What if you didn't save enough, or took a loan from your 401(k)? It is the same as being stuck behind a tree on the golf course. You can try to hit a hooded 4 iron, taking it over the water and hook it in or you can take your medicine, punch out and play for bogey. Taking your medicine can be challenging, it requires you to be honest with yourself. If you haven't saved enough, what should you do? Work longer, spend less and save more. It isn't that complicated, but it can be a tough pill to swallow.

Hazards/bad bounce/wind change:

Do you know what the biggest difference is between a pro golfer and a 10 handicapper? It is their ability to recover from bad shots. Sometimes things happen out of your control- the wind changes and your ball is carried into a trap, you hit the flag stick and you end up in the rough. These mishaps are not your fault, but are part of the game. You have two choices: get mad, frustrated and lose concentration, which will lead to a skulled chip or failed sand attempt; or you can shake it off, focus on the shot at hand and do your best to knock it close.

The last several years may have been challenging. Through no fault of their own, people may find themselves in a tough spot. They could have been forced into early retirement- the company where they worked for 25 years went belly up leaving them with a stack of worthless stock options. They did everything right and got dealt a bad hand. So again, there are two choices. One, become overwhelmed, frustrated and throw in the towel for any type of happiness. Or two, focus on what is important, the recovery. You may never be able to get back to where you once were, but if you concentrate on what it will take to get back on track, you can still have an amazing retirement. Shake off whatever happened before, evaluate the situation as it stands in front of you and execute.

The Green:

Navigating the green is all about precision, - reading the breaks, looking at the grain, and determine the proper pace. Of course, you want to make the putt, but you don't want to bring a 3 putt into play. You have to forget about everything else and just focus, sheer strength is irrelevant. The only thing that is important is sinking it in two. In fact, most of the time a perfect lag putt is all you need.

The final 5 years leading up to retirement is like your lag putt. At this stage your earning years are coming to an end. All your hard work has led you to this spot. You can't get back past mistakes, you must put them behind you. The most important element is to get as close to your goal as possible so all you have left is a tap in. There is no need to take unnecessary risk. If you can successfully navigate this stage, you will have the retirement you planned. What type of return do you require? 4%? Then get 4%, if you don't need 8%, don't take on that level of risk. Perfect execution and you could make the putt, if so, then maybe you can retire a little early. Otherwise, you want to make life as easy as possible for that final stage, because no one likes to face a downhill 5-foot slider for par.

It is that next and hopefully last putt that represents your days in retirement. Depending on how your lag putt went determines how easy it will be. If you made all the right moves, then retirement shouldn't be much of a challenge. But if you over-spent, took on too much risk or stopped saving, then life could be nerve-racking. It doesn't mean you won't have the retirement you planned, it just might be a little more stressful or have to be delayed for a while. After all, you could make that 5-foot slider, but wouldn't you prefer the tap in?

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Caddies:

The nice thing about golf and retirement is you don't need to do it alone. There are "caddies" such as CERTIFIED FINANCIAL PLANNER™ practitioners, CPAs or attorneys that can help. The caddie's job is to guide you through the entire process-to advise you on what investments you should use to position yourself for the next shot. Their job is to look at you, the landscape and your skills then recommend how you should proceed. It is still your choice, but a little advice can go a long way. Most people don't think they need a caddie, whether it is in golf or their finances, until after the fact, but the value of the caddie is to make sure things don't go wrong and if they do, to get you back on track as quickly as possible.

About the Horizon Group

We take a collaborative approach to help clients navigate complex financial situations and plan for the future. We specialize in integrated financial planning, investment management and divorce financial services.

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