Rodger on Retirement

Plenty of assets and no equity

By all outward appearances, Jack and Cheryl were living the life reserved for the wealthiest people in the country. Jack was a consultant in government contracting earning a little more than $450,000 a year, yet he lived a million dollar lifestyle. There was a new Mercedes-Benz in the driveway next to a Harley-Davidson motorcycle. In the garage, were a vintage Thunderbird convertible and 4-wheel drive BMW Crossover. Their 6,000-square foot house stood on three acres of manicured lawns. Cheryl spent time by the pool with her friends who admired the new diamond bracelet Jack gave her for their 10-year wedding anniversary. She routinely shopped at Saks and Nordstrom, although her closets were full, adding thousands of dollars to their credit card bills each month. They have three daughters, under the age of 12, who attend private school, and in the summer, an overnight camp. The combined costs of school and camp exceeds $100,000 per year.

Jack did not listen when his accountant tried to slam the brakes on both their glittering lifestyles and trading in speculative stock options. He had cashed out his universal life insurance policy to fund a trading strategy that cratered when the market downturn was at its worst. His wife was blissfully unaware of his failed investments, the cashed out life insurance policy, a second mortgage, and their overdue credit card bills. Little did Cheryl realize that she was just as guilty as Jack in digging a financial hole from which they could not recover from? In fact, she was ready to talk to him about buying a beach house in Florida where many of their golf friends owned homes.

Jack's ego and lifestyle caught up to him as he realized his cash flow was insufficient to match all their outflows. Jack and Cheryl are a perfect example of what the late Dr. Tom Stanley referred to as "big hat and skinny cattle." In other words, *plenty of assets and no equity*.

Years ago, Jack met with a financial planning team that laid out a rational and effective plan for their finances, designed to help them reach their financial objectives with moderate risk and a high probability of success. At the time, he had very reasonable goals of saving for his daughters' college educations, starting a fund to pay for their weddings, and his retirement. "Where had it all gone wrong?" he wondered. He had no equity in their home, all the cars came with car loans; even the Harley had a loan. He had blown through his daughters' college funds on a high-tech start-up that looked promising but went bankrupt.

Jack thought of the road he had taken and wished he could hit the reset button to go back to that financial planning meeting years ago. He would have signed on the dotted line and not tossed it all in the garbage when he got home.

*This is a hypothetical illustration and is being provided for educational purpose only. Keep in mind that there is no assurance that any strategy will ultimately be successful or profitable nor protect against a loss.