

Pay Yourself First

By Peter Murphy

Retirement Planning is a simple four step process which begins with goal development. Spending time and effort to ascertain your goals and expectations is the most important ingredient to understanding one's financial needs for retirement. Without a goal, plan development is futile.

With aspirations identified, alternative plans can be strategized to meet your desires. Selecting the plan you are most comfortable with is the next step, followed by plan execution and an annual review/update. Although this process appears easy enough, many people fail to plan for retirement and suffer the consequences in the latter stages of life.

The most important ingredient in building a retirement nest egg is something the rich, middle-class and the poor have in common – time. Money grows exponentially over time. For example if a person invested \$10,000 today and realized an 8% annual growth rate over 36 years, the money would first double to \$20,000 in 9 years, double again by year 18 to \$40,000, double a third time to \$80,000 at 27 years, and become \$160,000 at year 36. The lesson is simple. The earlier you start saving, the more likely you are to reach your financial goals.

Understanding your risk tolerance is another essential aspect of investing, and necessary in determining the optimal financial plan to accomplish your objective. Risk vs. Reward is a tradeoff we accommodate throughout life, and retirement planning is no different. As people get older, many find themselves less willing to accept the risks of youth and retirement portfolio adjustments are commonplace. Understanding your options and associated risks are critical to meeting one's planned financial needs.

“Don't place all your eggs in one basket” as the saying goes is another vital element in retirement planning. Diversification by purchasing assorted global investments among multiple money management and insurance companies reduces the likelihood of loss by individual stock devaluation or company default. There are many choices available for investors, so know your alternatives and diversify your portfolio.

The sooner you generate your retirement goals and desires, the quicker you can begin the most time consuming portion of your plan – acquiring wealth. As I detailed above, time is the most important ingredient to acquiring wealth, and it reminds me of a classic book on finance written by George S. Clason in 1926, “The Richest Man in Babylon.”

In the book, Algamish, a wealthy money lender, befriends a young scribe, Arkad. Algamish shares his secret of becoming wealthy with Arkad, explaining that the secret of success is to **“Always Pay Yourself First.”** Arkad eventually becomes the richest man in Babylon.

The book's lessons and principles of acquiring wealth are as viable today as the day it was published. The book is just 144 pages, and an audio copy is less than 5 hours of listening; well worth your time and effort. Sharing the book's knowledge with your children and grandchildren will teach them the fundamental essentials of wealth building regardless of career path, and leave them a legacy of happiness – which will be attributed to you.

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