

I've played 358 rounds of golf in the two weeks since I have been retired."

Retirement! It sounds so nice!

Retirement sounds great: no boss, do what you want, travel, etc., but does retirement hurt your health and life expectancy? That is a good question, and the answer depends I think on just what you mean by retirement. On one hand, a retired person has lots of extra time - extra time to exercise and cook healthy. Or the extra time could be spent watching TV and eating junk. The health of your retirement depends on what you do. I researched the studies on retirement and health to try to figure out if there is anything definite about how retirement impacts longevity and aging. Hope this report helps your future planning.

If you are anywhere near retirement age, you probably feel a little envy when you hear about someone who was able to retire early. But perhaps you should think again. It turns out that retirement can be *dangerous* for your happiness and even your health, at least in a broad statistical sense. Personally, I don't like the idea of retirement as we have it in Canada. Everyone needs something to do. I like the idea of transitioning to a different type of work, but we all need to feel meaning and purpose in our lives. Full retirement may be a thing of the past. If the conclusions of several authors are accurate, the tidal wave of Baby Boomers won't be ending their working days anytime soon, if at all. One author argues that retirement should not be viewed as an entitlement and that there is no magical reason to retire at 'age 65.'

Research shows that people who take on full or part-time jobs after retirement *have better health*. The prestigious National Bureau of Economic Research, a U.S. clearing-house for some of the best academic research compared thousands of people who had retired with others in the same age group who had not retired. The retirees had substantially more chance of experiencing difficulty with mobility and simple self-care tasks and were more likely to show signs of depression. One of the researchers, economist Dave Dhaval at Boston's Bentley College, said he was surprised at how negative the results were. He didn't expect any big decline in health, "yet we did find this big impact."

If you dig a little deeper into this study, you find that it's not really retirement that might make you sick, but rather *the poor way many of us plan our retirement*.

Is Early Retirement a Healthy Idea?

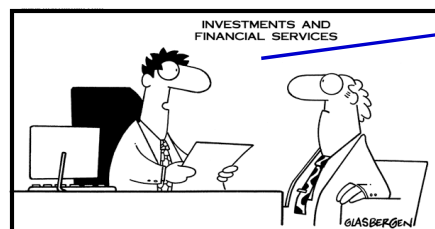
Another well-done (statistically speaking) study looked at 16,827 men in Greece who **had not** been diagnosed with any major health condition, such as diabetes, stroke, cancer or heart disease. It compared men who retired to men who were still working. It found that the retirees had a 51% increase in their risk of death. Most of the increase in death risk was linked to heart disease and cardiovascular health.

Should I Then Cancel My Retirement?

What about just not retiring ever? There are regions in the world where people are healthy and active well into old age. In these places, it is not uncommon for a 90-year-old to be walking several miles a day, helping with the garden and taking care of great-grandchildren. People seem to age well in places, such as Okinawa, Hunza Valley, and the Vilabamba. In these regions, the idea of retirement just doesn't exist. People stay active into their very old age. Basically they go, go, go and then pass away. They don't experience long periods of chronic illness or disability.

What matters for your health is what you are doing to your body and mind. If you retire and sit around all day, your health will deteriorate. If you retire and hit the gym while eating tons of fruits and vegetables, your health will improve. All this discussion about health and retirement is arbitrary. What matters is what you are doing to your body and mind. People who are working can have terrible health if they sit around all day and stress out, so forget about whether retirement is healthy or not -- look at your daily habits and decide which ones need some improvement.

People who stay physically and socially active, some of them by working part-time, pretty much escape the retirement curse. Retirees benefited whether the work was a full or part-time job, self-employment or temporary.



"You're called 'boomers' because 'boom' is the sound most of you will make when you crash into your retirement years."



"I retired early to play golf with my husband. Then, when I started to beat him in golf, he left me."

Doctors have long known that staying active during the older years is associated with better health. Studies found that post-retirement work had a distinct effect on health. Notably, the hours a person worked didn't matter, showing that both part-time and full-time employment are beneficial after retirement. While working after retirement is good for you, the data also suggest that retirees shouldn't take on just any job. Among those who kept working, the retirees who found work related to their previous careers had the best mental health. The study authors speculated that working outside a person's main area of expertise might lead to more stress.

Another study suggested that working after retirement was associated with living longer. The researchers found that whether a person was still alive after 12 years after age 70 was strongly associated with whether they had been actively working or were fully retired. Among the people studied, those who continued to work at age 70 and beyond were 2.5 times as likely to be alive at age 82 as those who had retired and were not working.

The message is not that retirement will kill you. Properly interpreted, the study just says that even after you leave the stresses of the workplace, you must still take care of yourself. Work also provides an automatic social network. This effect is so strong, notes Robson, that when Americans with better retirement benefits were compared with those with skimpier ones, the ones with smaller incomes were actually healthier. *How to explain this?* Well, those with smaller retirement incomes were more likely to work part-time. Both governments and private employers really need to rethink how our pensions are designed. Right now, neither public nor private pensions give us an incentive to work beyond 65. The average private-sector employee in Canada retires at about 62 and the average public-sector worker at about age 59.

That is not only a waste of talent, but quite possibly may bring an additional drain on our health-care system.

Conservative Investing Threatens Retirement

Just as the Great Depression scarred a generation and left many with a poverty mentality that still persists, the two bear markets of the last ten years risk are shaping an *entire new generation's attitude to investing*.

That's a key finding from a survey of affluent Americans commissioned by Merrill Lynch and released earlier this year.

Events over the past decade have made it fashionable for affluent investors to adopt a "conservative" approach to investing. That conservative stance is arguably the single biggest factor preventing investors of all stripes from achieving their retirement goals – and that's particularly the case for younger investors.

Today **60%** of affluent investors under 35 consider themselves conservative – significantly higher than older investors aged 35 to 65. There are a number of reasons for this conservative approach among so many investors under 35:

- Due to the "lost decade 2000-2009", many young investors have never experienced strong markets – they are extrapolating future returns from those experienced in the past ten years.
- These young conservative investors don't have a good understanding of the returns required to achieve their retirement goals. Most don't have a clue about the implications that a low risk stance has on how much they'll have to save, how long they'll have to work.

There's really only one solution and that's for young investors to better understand the ramifications of a too conservative stance when it comes to investment returns.

A Perspective on 'Conservative' Investing.

by William Gross, Co-Chief, PIMCO (edited version)

PIMCO is a \$1.2 trillion fund designed to invest worldwide.

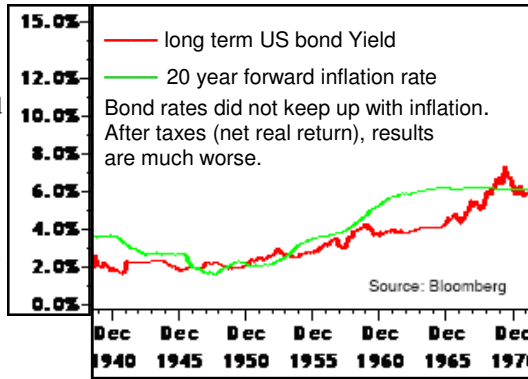
Low policy rates and the increasing negative real yields (rates below inflation rates) that they provide as inflation accelerates represent an immediate threat to investment portfolios. Bond prices don't necessarily have to go down for savers to get skunked during a process of "debt liquidation."

- PIMCO advocates a renewed vigilance.

There appears many blips on the radar screen: global imbalances in trade, finance and currencies; excessive private and sovereign debt levels; growing disparities in wealth between the rich and the poor; aging demographics threatening aging and younger generational priorities. For now I would like to discuss the *immediate threat* to portfolios represented by low policy rates in the world as inflation accelerates. I spoke before to the reality of investors being "skunked" and having their pockets picked simply by receiving yields less than inflation, and suggested that as a major reason why the PIMCO Income fund was carrying a limited supply of Treasuries on board. We are highly sensitive to the pocket-picking policies that governments in general deploy.

An academic working paper by C. Reinhart and M. Sbrancia affirmed the same thing. The paper, titled "The Liquidation of Government Debt," contains a historical analysis of how governments attempt to get out from under the crushing burden of a debt crisis. The mid-1940s (when WWII sovereign debt loads were oppressive) was used as a starting point for the report. While the ancient Romans used to shave metal coins in an attempt to monetize existing debts, our evolving financial system has used more *sophisticated techniques*.

The U.S. Treasury capped long-term bond yields at 2½% and in so doing ensured that its debt to economic growth ratio would be reduced.



Note: Beware of commodity based countries.

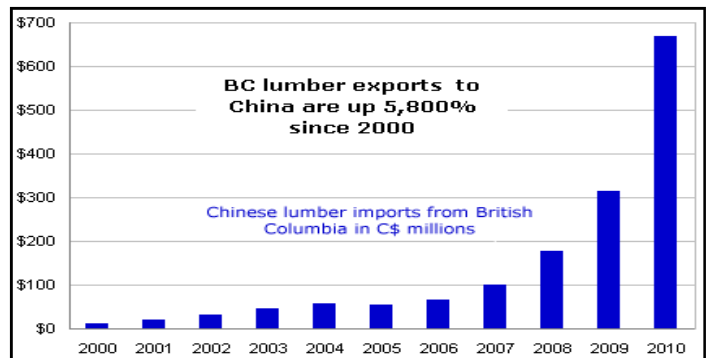
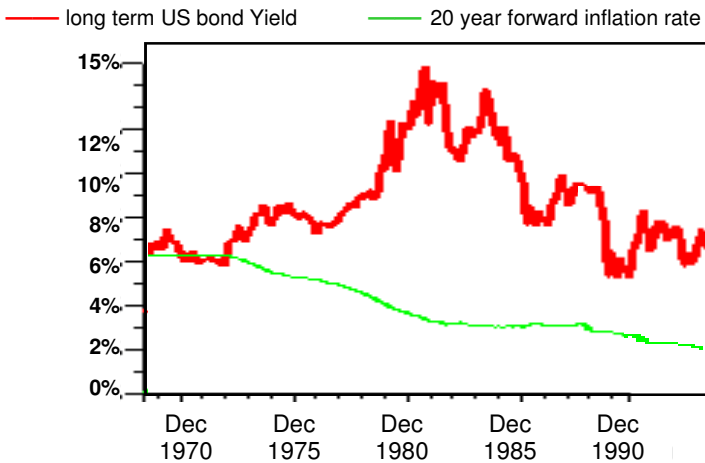
Home Bias

There is a general assumption in the financial industry that investor sophistication increases with net worth. But a recent survey by Brandes Investment Partners finds affluent investors fall into the same home bias trap as everyone else. The firm's study found that Canadians with more than \$250,000 in investable assets hold, on average, only 15% of their equity portfolio in international stocks. On average, Canadian markets account for 66% of investors' total portfolios. When asked why they were so heavily invested in Canadian markets, 79% investors claimed the domestic market provided adequate diversification - a somewhat puzzling claim given the massive overweight to resources and financials in Canada.

It's assumed that when the United States catches cold, Canada gets pneumonia. But the reality now is that if China ever catches cold, Canada will get double pneumonia. And the reason is, sticking with medical metaphors, that Canada is weak and vulnerable because it has an advanced case what is called "Dutch Disease." This is an affliction caused by a booming resource sector which drives up the currency's value, which in turn drives out exporters, manufacturing and tourism. "A severe case of Dutch Disease" has dramatically reduced the breadth of the Canadian business sector, hollowing out manufactured goods exporters and making the nation increasingly reliant on commodity demand. Canada has often been referred to in jest as the 51st state. However, it is becoming more accurate to regard Canada as another Province of China."

If savers received an average 2% while the economy was advancing at 5% or more, then debt service ratio could be lowered every 12 months. Even after interest rate "caps" were removed in 1951 via the Fed-Treasury Accord, extremely low/negative real interest rate policies continued until the Volcker revolution in the 1970s. By that time, U.S. (and U.K.) debt levels had been normalized, primarily at the expense of savers who had been "repressed" for over three decades (1945 - 1974). Bond prices don't necessarily have to go down for savers to get "skunked." Today's rates resemble the interest rate caps prior to the 1951 Accord. It appears U.S. Treasuries and the bond market in general are being "repressed." If history is any guide, an investor should expect these overvaluations to be with us for many years.

Bond investors have been sailing on the "Good Ship Lollipop" for the past 30 years (1979 - 2009). Bonds have greatly outperformed inflation in this period.



When China stumbles in the years ahead and the commodity bull market comes to an end, Canada may suffer through a painful economic contraction. The fallout at that point [*this may be still a few years away for who knows when*] will be prolonged due to the fact that the current Canadian business sector is uncompetitive in many fields and the household sector has accumulated substantial leverage (more than the U.S. per person).

Here are some figures:

- The surge in the Canadian dollar has hollowed out the non-commodity export sector. Canadian exports have not grown for a decade.
- The TSX's energy and materials equities represent 57% of the Canadian market value, up from 15% in 2000.
- The Bank of Canada has kept interest rates too low, amid fear the dollar would go higher, but this is creating labour market and housing bubbles, both of which will come back to haunt the country in a downturn (re-read the PIMCO article).

But...current bond investors should revolt. The U.S. Treasury market may again be on a collision course with bond holders.

Review Chart 1



The Portfolio Rebalancing Act



“It makes investing decisions automatic, but experts differ on how often it is necessary to rebalance.”

J Heinzl, Globe & Mail 05/17/11

Rebalancing refers to the buying and selling of different asset classes in your portfolio to bring investments back into “balance.”

There are three ways one can rebalance:

1. When adding more money, buy into the investments that have not performed as well (buying low).
2. When redeeming, take money from the investments that have done the best (selling high).
3. If you are neither adding nor redeeming money, sell off the winners and buy more of the losers.

Step 1 (and 2) is easy to implement except for controlling your emotions and pulling the trigger. After all, who wants to buy more of the stuff that is not doing so well?

The real issue is Step 3. How often should rebalancing be done? DFA (Dimension Index Funds) have done a number of studies that look at the relation between rebalancing for lowering risk and/or increasing returns.

Note: Understanding the relationship of risk and costs is extremely important, as the benefits from excessive rebalancing must be weighed against any transaction costs and, if applicable, any income taxes to pay on the trading.

20 Years or More of Rebalancing Data Required

Some may argue that rebalancing strategies can be tailored to produce higher average returns due to buying low and selling high. However, testing for higher returns from rebalancing is difficult because extra returns are not observable in the short term. Many studies have looked at the impact of rebalancing on returns using investment horizons that range from 5 to 20 years. However, it takes over 20 years of data to statistically document if any extra benefits have indeed been achieved.

Note: For the small cap and value style investments to see any extra returns, statistical significance requires studies of over 20 and 30 years, respectively. Beware of any sort term studies, as they are just “noise.”

Assume you have the following investments in your portfolio: note: only U.S. data was used due to the lengthy time periods required for the studies (1926 - 2008).

40% BONDS	U.S. EQUITIES	U.S. Equities
15% Government	12% Large Growth	8% Small Growth
15% Corporate	12% Large Neutral	8% Small Neutral
10% T. Bills	12% Large Value	8% Small Value

One must be cautious when interpreting reported benefits of rebalancing strategies because certain strategies may look good over **short term time periods**, especially if researchers try very hard to find good periods where they are ripe for frequent rebalancing.

How confident should one be that a frequent rebalancing strategy is a good strategy? Let’s compare the returns of a non-rebalanced portfolio to one that is rebalanced. The returns and standard deviations (risk) for the rebalanced, seldom rebalanced, and never rebalanced portfolios are shown in Table A below.

Table A: Statistics of Monthly Returns 07 1926 - 06 2008

Rebalancing Period	1yr	5yr	10yr	20yr	Never
Average Monthly Return	0.88%	0.85%	0.85%	0.89%	1.07%
Standard Deviation (risk)	4.04%	3.67%	3.61%	3.72%	4.59%

The Rebalancing Frequency is Shown in Years

Conclusion

The “never” rebalanced portfolio has shown greater returns and greater volatility than the annually and seldom rebalanced (10 or 20 year) portfolios. This should come as no surprise, given the significant increase to stocks in a never rebalanced portfolio at the end of an 82 year period.

While a rebalancing strategy will affect portfolio returns, trying to predict which strategy will have the highest returns going forward will likely lead one down a path of unproductive data fixing. It is fairly easy to search various strategies to find the one that works the best in a given period. However, finding one that will continue to provide better returns is a much more difficult if not *impossible task*. Aside from avoiding excessive trading fees, **there are no optimal rebalancing rules** that will yield the highest returns on all portfolios and in every period.

The good news for investors is that without an optimal way to rebalance, the burden of producing returns through rebalancing is lifted. A higher return is the responsibility of the market, which sets prices to compensate for risk.

- The primary reason for rebalancing should not be the pursuit of higher returns. Returns are determined through the asset allocation, not through rebalancing.
- The bad news, of course, is that there is no easy one-size-fits-all “best” rebalancing solution. Rebalancing decisions should be driven by the individual’s profile.
- The optimal rebalancing strategy will differ for each investor, depending on their unique sensitivities to fluctuations, transaction frequency, and the tax costs.

If the highest return was the main objective along with low trading fees and least taxes to pay, then that investor profile would fit the never balanced portfolio.