

THE RETIREMENT INCOME COMPASS

BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Investing Challenge/Compass Advantage

The Sequence of Returns Matters

Even though the returns are the same, the results are drastically different

Portfolio A			Portfolio B	
Year	Return	Balance*	Return	Balance*
0		\$100,000		\$100,000
1	-18.39%	\$75,897	26.57%	\$117,710
2	-19.14%	\$55,710	19.61%	\$132,420
3	-4.59%	\$46,475	5.26%	\$132,017
4	18.47%	\$46,766	16.57%	\$145,733
5	6.79%	\$42,466	33.60%	\$185,347
6	14.30%	\$40,537	21.23%	\$216,210
7	-15.39%	\$28,376	13.92%	\$238,332
8	14.59%	\$24,495	-1.61%	\$227,608
9	8.95%	\$19,060	21.03%	\$267,002
10	19.52%	\$14,414	16.21%	\$302,148
11	20.72%	\$8,951	20.72%	\$356,303
12	16.21%	\$2,267	19.52%	\$417,486
13	21.03%	\$0	8.95%	\$447,225
14	-1.61%	\$0	14.59%	\$504,454
15	13.92%	\$0	-25.39%	\$371,150
16	21.23%	\$0	14.30%	\$416,224
17	33.60%	\$0	6.79%	\$437,010
18	16.57%	\$0	18.47%	\$509,433
19	5.26%	\$0	-4.59%	\$479,371
20	19.61%	\$0	-19.14%	\$381,959
21	26.57%	\$0	-18.39%	\$306,004
Mean Avg.:	10.4%		10.4%	
Std. Deviation:	14.6%		14.6%	
Cmpd. Avg:	9.4%		9.4%	

*Starting balance — \$100,000, Withdrawals = \$7,000
Source: Fidelity Research Institute and QWeMA Group Inc.

Expect the Unexpected

When you retire there are things you can control, such as spending and asset allocation. Sequence of stock market returns after you retire is not controllable yet will have a significant impact on your lifestyle in retirement, and how long your portfolio can last while sustaining needed withdrawals.

The 'sequence of returns' challenge revolves around the timing of a series of adverse investment returns. The table is a striking illustration. Two portfolios, A and B, both begin with \$100,000. Each aims to withdraw \$7,000 per year, and each starts in a period with exactly the same returns over the following 21 years, only in inverse order, or 'sequence.' Portfolio A has the bad luck of more negative returns in its early years

and is completely depleted by year 13.

Portfolio B has more positive returns in its early years and ends up two decades later with tripling its assets.

Manage the Unexpected

Systematic withdrawals, the conventional income replacement strategy used in A and B, can lead to both victory and defeat. Managed Withdrawals, an alternative paycheck replacement strategy, incorporates pre-established guidelines that allow annual tactical adjustments to minimize the two big risks of portfolio withdrawals:

- running out of money too soon, and
- living too frugally for fear of the above.

Whether still working or retired, get the scoop on Managed Withdrawals, the really smart way to manage retirement income.

The Challenge

Your retirement income success is built on critical decisions in each of the four Compass Points:

- Planning
- Investing
- Managed Withdrawals
- Navigating

Managed Withdrawals

- Madden will help you establish a prudent withdrawal rate designed to get your portfolio safely through your retirement years.
- We know that crises will occur, and we cannot know how long they will last: therefore,
- A critical part of the retirement income planning process is to develop 'Plan B' — the actions that will be taken if the portfolio's assets fall to such a great degree that if 'Plan A' is not altered the result would be its likely failure—the portfolio will run out of assets

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What to know...
and how to go

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Custody by Fidelity Investments

Model Portfolios

Balancing Return and Risk

Portfolio Goal

There is a model of investing based not on speculation but on the science of capital markets. Decades of research guide the way. The goal of your portfolio is to deliver the performance of the global capital markets and increase returns through using funds that incorporate state-of-the-art fund design and trading. Madden's special ability to offer the asset-class funds of Dimensional Fund Advisors (DFA) is a major advantage in achieving your portfolio's goal. For more on DFA's unique approach to fund design and management, go to dfa.us.com (take the 'individual investor' tour).

Many investors think that picking individual stocks is the single most important factor that determines performance. While stock selection can make a difference, serious academic studies show that asset-class allocation accounts for over 90% of variability of a fund's return over time. One can limit the effect that any single security or asset class will have on the performance of a portfolio by investing in a combination of asset classes. As a result, unpredictable declines in the total returns of one or two asset-classes **may be** offset by equally unpredictable increases in others. The right stock-bond asset-class mix can provide potential for higher returns while maintaining a targeted level of risk.

Model Portfolios & Your Account(s)

The asset allocation in the portfolios shown below are created by Madden from thirteen institutional asset-class funds engineered by DFA. Funds in your accounts may vary from the specific funds in the models for any of several reasons:

- **Account Size.** To minimize transaction fees in smaller accounts we often use DFA consolidated/core funds which incorporate several asset classes in a single fund. (A note on transaction fees: DFA does not share any of its very low management fee with Fidelity. Consequently there is a nominal transaction fee for each DFA fund transaction. Other fund families participate in Fidelity's No-Transaction-Fee (NTF) program by sharing a portion of their much higher management fee. The shared fee is typically higher than DFA's total management fee.)
- **Tax Management.** To minimize taxable income Madden will often use several DFA tax-efficient core funds which incorporate multiple asset classes in a single fund. Likewise for fixed income Madden may use a DFA or Fidelity municipal bond fund.
- **Client Direction.** Clients will sometimes request withholding a specific asset class, such as real estate, from an account, or placing it only in a tax-deferred account.

The variances between funds in the models and your account(s) will cause some performance variance in your account(s) from the performance of the models shown below. Madden will work hard in its allocation to minimize return variance.

Another cause of return variance between your account(s) and the model portfolios is the date of last rebalancing of asset classes in your portfolio.

Model Portfolio Performance		Returns Thru 3/31/10*					
		2010 Mar. Ret.	2010 Year to Date	1 Year	3 Year	5 Year	10 Year
Model							
VC-20	Very Conservative: 20% Stock Funds, 80% Bond Funds	1.4%	2.1%	17.0%	1.3%	3.1%	3.7%
C-40	Conservative: 40% Stock Funds, 60% Bond Funds	3.0%	3.4%	31.1%	-0.5%	3.3%	4.2%
N-60	Normal: 60% Stock Funds, 40% Bond Funds	4.6%	4.6%	45.1%	-2.3%	3.4%	4.7%
A-80	Aggressive: 80% Stock Funds, 20% Bond Funds	6.2%	5.9%	59.2%	-4.0%	3.5%	5.3%

Model Portfolio Allocations			Model Portfolio			
			VC-20	C-40	B-60	A-80
Asset Class Category	Asset Class	Symbol				
US Stocks			14%	28%	42%	56%
DFA Large Co.	S&P 500	DFLCX	4%	8%	12%	16%
DFA Large Co. Value	Large Value	DFLVX	4%	8%	12%	16%
DFA Small Cap	Small Co.	DFSTX	2%	4%	6%	8%
DFA Target Value	Value Co.	DFVFX	2%	4%	6%	8%
DFA US Real Estate	Real Estate	DFREX	2%	4%	6%	8%
International Stocks			6%	12%	18%	24%
DFA International Value	Intl Value	DFIVX	2%	4%	6%	8%
DFA International Small	Intl Small	DFISX	1%	2%	3%	4%
DFA International Small Value	Intl Sm Value	DISVX	1%	2%	3%	4%
DFA Emerging Mkts	Em Mkt	DFEMX	0.6%	1.2%	1.8%	2.4%
DFA Emerging Mkts Value	Em Mkt Value	DFEVX	0.6%	1.2%	1.8%	2.4%
DFA Emerging Mkts Small	Em Mkt Sm	DEMSX	0.8%	1.6%	2.4%	3.2%
Income Funds			80%	60%	40%	20%
DFA 1-yr Fixed Income	1-yr Notes	DFIHX	40%	30%	20%	10%
DFA 5-yr Global Fixed	Global 5-yr Bonds	DFGBX	40%	30%	20%	10%

Returns reflect deduction of a 1% per year advisor fee (Madden's maximum). Returns are hypothetical since portfolios' allocations were not employed for the entire ten-year period, some result are based on backtesting. Past performance is not predictive of future results.

Source: DFA