

Managing boomers' savings

By Holly Hubbard Preston

Dean Packard took 11 days away from his desk this year to sit in a classroom and learn new skills and strategies. Packard, a 21-year financial services veteran and senior vice president of investment at Smith Barney in Bethesda, Maryland, was learning how to target the so-called baby boomers — Americans born in the two decades after the Second World War, the oldest of whom are turning 60 next year.

Figuring out ways to keep America's baby boomers financially solvent is commanding a huge amount of attention from financial industry professionals like Packard.

The generation born between 1946 and 1964 has amassed some \$9 trillion in private retirement assets. In contrast to the common perception that boomers have been a happy-go-lucky generation, preferring to spend than to save, a recent study by Smith Barney found that, as of 2002, the average 50-year-old American had saved 20 percent of after-tax income — nearly twice the savings rate at that age of Americans born a few years earlier, during the war.

Unlike their parents, who sheltered their nest eggs in company and government-backed pension plans that delivered guaranteed distributions, boomers have been socking away the majority of their retirement assets in self-funded 401K and other defined-contribution plans.

This has created a challenging paradigm shift for boomers and their financial advisers alike.

Take the average "mass affluent" baby boomer, someone with \$1 million plus saved up for retirement. A nest egg of that amount might, "sound like a high threshold," said Smith Barney's Packard, "but it's not."

A portfolio of that size, responsibly distributed for today's market environment of 5 to 7 percent annual returns, would generate \$50,000 to \$70,000 a year of income — not necessarily inadequate, but certainly offering no cushion for a financially carefree existence.

"This is the first generation that has really had to manage its own savings," said Ellen Breslow, managing director of retirement and financial planning at Smith Barney, the division responsible for researching and developing the retirement programs that Packard uses to advise his clients.

Over the last two years, Breslow's team has started to look more closely at creating products that factor in the "spending end" of the postretirement equation.

For this demographic, which has a projected average life-span of 80 years and above, there is a real risk, said Breslow, "of running out of money and not living the lifestyle they may have expected."

Don Weigandt, a managing director for J.P. Morgan's private banking group in Los Angeles, specializing in estate and tax planning, advises his high net worth clients that, if they want to live off their retirement portfolio, they will need to spend no more than 3.5 to 4 percent of that portfolio per year, taking into account inflation, taxation, and financial service fees.

"Most retirement funds will be taken out of defined-contribution plans where there is no guaranteed return," said Weigandt. "To me that is a powerful difference, when all a retiree used to have to worry about was the solvency of the pension plan. It makes our retirement planning a whole lot more complex."

J.P. Morgan, like many financial institutions, has begun to rely heavily on planning software that helps to project a client's assets and to compare them with

This generation has stowed away \$9 trillion in assets



Ellen Weinstein

likely expenses. J.P. Morgan is also using software to simulate various market return scenarios and to measure them up against a client's life expectancy.

These software tools give clients a tangible way to view their post-retirement spending power in terms of best- and worst-case scenarios that take into account a multiplicity of variables, including market volatility.

The experience is a critical one, said Andrew Martzloff, a partner and managing director at Bitterroot Capital Advisors, a wealth management firm based in Bozeman, Montana. "Clients need to be thinking about spending in light of investment returns," Martzloff said.

Fueled by the belief that investors of all ages have entered "an extended, very challenging investment period," Martzloff and his partners are advising their high-net-worth clients — people with \$100 million and more — to start by developing a sound asset allocation plan.

"This means not only deciding on proportions of stocks, bonds and other investments to hold, but also to view the execution of that plan as a significant source of investment returns," Martzloff said. "In other words, what kind of equities? Large or small? Domestic or international? Quality or more volatile 'junk'?"

"Those decisions can significantly improve returns, and help avoid trouble."

They can also provide a targeted opportunity for market outperformance. As an example, Martzloff noted: "In the last five years, if you owned value stocks you would have done very well and if you had owned growth stocks, you would have lost significantly between 2001 and 2003. The difference between the two asset categories was a 100 points."

For clients with a limited risk budget, Martzloff advises falling back on low-fee, tax-efficient index funds which, though generally not available through most retirement plans, generally "beat active management, until proven otherwise."

Bitterroot researched the monthly returns of over 6,000 actively managed mutual funds against their relative benchmarks — passive investments or index funds — and fewer than 5 percent of them outperformed more than 60 percent of the time.

Still, other managers argue, that could still leave the other 95 percent outperforming less than 60 percent of the time — and having your money outperform some of the time may still be better than putting it in a tracker fund designed not to outperform any of the time.

On a different tack, Smith Barney's strategy, Packard said, is typically to shift retirees out of 401K plans, which tend to be focused around mutual funds, into professionally managed individual retirement accounts that are focused more on specific asset categories such as large cap growth stocks or small cap value stocks.

The benefit of this approach is that "you can really drill down to one manager who buys a large-cap value focus and you can really stress test and see how true to that style they are staying," he said.

Adopting this strategy, said Packard, clients can build a "laddered" portfolio, including bonds that can be sold off to help meet spending needs and avoid the pressure of having to possibly sell other assets, such as equities, at times when it would be better to hold them.

These efforts are a far cry from the vanilla treatment that retirees used to expect. That approach would be impossible now, said Packard, given the growing variety of asset categories that wealth advisers need to factor in for their Boomer clients.

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\$60 oil a bonanza for private bankers, Islamic sector included

By Otto Pohl

Pivate bankers are giddy with excitement — to the degree that private bankers ever are — as they vie for the business of the newly rich and the newly richer resulting from \$60 oil. "We're seeing a growth situation in the Middle East that's a once-in-a-lifetime opportunity," said Mark Morgan, chief officer of Citigroup Global Wealth Management for the Middle East, based in Dubai.

Morgan compares the current wealth accumulation in the Gulf region to the epic fortunes created by the industrial revolution in Britain and America a century ago. "This is when the dynasties of the next 50 and 100 years are being created," he said by telephone.

Oil wealth has long sought out the services of private bankers in discreet financial centers like Geneva, Luxembourg, and London. Now, the private bankers are coming to their customers.

Despite rules that effectively bar them from participating in the region's booming stock and real estate markets, banks including Citibank, ABN AMRO, and Barclays have recently founded or expanded their private banking offerings across the Gulf region.

Dubai is experiencing the greatest influx, while the established banking center in Bahrain, and rapidly internationalizing centers in Qatar and Kuwait, are also eagerly courting banks.

Although still in its infancy, the Islamic banking sector, governed by Shariah law, has also gained from the wealth explosion.

Wealth accumulation has taken on a new intensity worldwide, wealth management reports say. But oil has pushed the Gulf region to the forefront of private banking growth. ABN AMRO has reported 50 percent revenue growth for the last three years from its private banking Gulf division, and profit growth has been even higher, said Gilles Rollet, ABN AMRO's chief executive for private banking in the Middle East.

According to the latest world wealth report by Merrill Lynch and Capgemini, millionaires in the Gulf region controlled \$1 trillion in 2004, up by nearly 30 percent from 2003.

The National Bank of Dubai building, right, with Dubai creek in the background. Dubai is experiencing the greatest influx of private bankers and wealth managers to the Gulf region, while Qatar and Kuwait are also starting to develop as international financial centers.

Morgan, of Citigroup, who set up the bank's first private banking office in the region only 18 months ago, is now planning its fourth office there, in Kuwait, after opening in Dubai, Abu Dhabi and Bahrain. Fortis, Julius Baer, and Standard Chartered are all also actively expanding in the region, while LGT Bank, the private bank of the ruling family of Liechtenstein, plans to open an office in Bahrain by the end of this year.

"We've found that wealthy people the world over look the world over," Morgan said. "The best opportunities are now on their doorsteps."

The wealth pool is also spilling over into the bank accounts of a growing number of foreigners living in the region. Ashburton, a South-African-owned offshore financial management

company based in the British island tax haven of Jersey, plans to open an office in Dubai early next year to serve expatriates living there, its managing director, Trevor Falle, said.

"The Middle East has always been a happy hunting ground from an offshore point of view," Falle said. His research indicates that it is becoming even happier; tens of thousands of British and South African citizens have flocked to the region to take often high-paying jobs.

The region's stock and real estate markets have absorbed — and created — much of the wealth. Gulf stock market indices have been among the world's best performers this year, while real estate price gains have made more established markets like London seem tame.

Recent market action has underscored the re-

gion's remarkable financial liquidity. In May, a \$135 million initial offering of Aabar Petroleum Investments on the Abu Dhabi stock exchange was oversubscribed more than 800 times.

In this exuberant climate, wealth managers are trying to remind investors of the importance of diversification. A return of "6 to 10 percent doesn't exactly get them excited," Rollet, of ABN AMRO, said. Some of the bank's most popular offerings include high yield fixed-income investments in Pakistan and India, as well as private equity funds with investments in China and Japan. Citigroup has found success with venture capital funds concentrated in China, India, and Eastern Europe.

As Dubai's financial center has grown, banks have moved into smaller regional hubs. A

loosening of restrictions for foreign banks in Kuwait has prompted HSBC and BNP Paribas to plan to expand there, in addition to Citigroup. Qatar inaugurated a financial center in May and is now accepting license applications. The first bank to receive a license there was Ansbacher, a British wealth management group that became a wholly owned subsidiary of Qatar National Bank last year.

Meanwhile, the region's original banking capital, Bahrain, is increasingly focusing on Islamic banking. Bahrain has 28 registered Islamic financial institutions, a number that is expected to grow quickly, said Andrew Jeffrey, editor in chief for emerging markets reports published by Oxford Business Group, a consultancy firm.

Investors complying with Shariah law outlined in the Koran avoid interest-bearing investments, and companies involved in banned activities, including gambling, and alcohol.

To help serve this market, estimated to be growing by about 15 percent annually, Dow Jones is expanding the number of its Islamic indices around the world from the current 44.

The company added conventional indices in Kuwait and Bahrain this year, with an eye to building experience in the region in preparation for launching Islamic indices, said Lars Hamich, the managing director of STOXX, the unit that handles Dow Jones's index business in Asia, Europe and the Middle East.

Tracking Shariah-compliant investments is not only interesting for Islamic investors, Hamich said, since those investments have often outperformed competing investments in recent years.

"The branding, the name, is sometimes a challenge," Hamich said. But compliance with Shariah debt requirements has helped Islamic-style investors to avoid financial land mines, like Enron and Global Crossing.

Bankers say the trends that are attracting them to the Gulf will continue for the foreseeable future. The Institute of International Finance recently predicted that the countries that make up the Gulf Cooperation Council — Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Bahrain, and Oman — will earn more than \$300 billion in revenues in 2006, or about three times the average for the previous decade.

Even for Rollet, of ABN AMRO, living in Dubai, the continuing flow of money and the rise of the stock markets still amazes. "It continues to surprise me every morning when I turn on the radio in the car," he said.

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