

## Save Your Retirement

*By Brian Richards and Tim Hanson*

According to the Retirement Confidence Survey, nearly one in three Americans (31%) is not confident that they have enough money saved for retirement. In his early 60s and nearing retirement, Tom Murphy was one of those Americans. "Social Security, bolstered by returns from my not-so-grand IRA, promised no opportunity for retirement," Tom said. Little more than two and a half years ago, it hit him. "I realized I had no concrete prospects for eventually getting off the treadmill. " So, naturally, Tom and his wife bought a fixer-upper property in Costa Rica to boost their retirement income.

### Come again?

Costa Rica has a reputation as a haven for low-income U.S. retirees. The country's health-care system is solid, and the climate is ideal. It has been estimated that 50,000 North American and European expatriates live in Costa Rica, which is roughly the size of West Virginia. Though they never vacationed in Costa Rica, Tom and his wife had heard about its many pluses, and they began browsing the Web for more information. After making contact with a helpful realtor, the Murphys traveled to Costa Rica in the fall of 2003.

By February 2004, the Murphys had purchased a property with a prime location on the Central Pacific Coast, with an ocean view neighboring a friendly mission of monkeys -- but it required substantial work. The house's original structure was demolished. Construction was financed by first and second mortgages on their Southern California home, as well as a three-year balloon mortgage from the seller of their property.  
Big gambles, big payoffs

Drastic measures and retirement makeovers are sometimes necessary to salvage a happy retirement. Tom's unorthodox gamble was needed, he says, because he is "a sorry example when it comes to long-term savings. My pattern has been to 'go for it.' Sometimes this paid off; sometimes it didn't."

It didn't pay off in his stock investing. In the late 1990s, Tom managed his and his wife's portfolio using a mechanical investing (MI) strategy. After doubling the initial stake in about two years, all his gains were wiped out, leaving him back at the starting line. When the dust settled, his retirement nest egg was filled with only the amount of his original stake (\$120,000), plus the equity in his home. To be fair, though, the key to any mechanical investing strategy and any investing strategy at all is to be disciplined, patient, and take a long time horizon. Tom says that one of the reasons he got out of the market was because he couldn't handle the effect the volatility was having on his wife. Like most married near-retirees, two financial futures were tied up in one nest egg.

The Costa Rican property is a different story. During the remodeling/reconstruction process, there were plenty of folks who thought Tom and his wife had gone crazy. "We knew their skepticism was not without merit, [but] we were confident of our course." And he was right. This month, Tom and his wife successfully closed the sale of their villa for \$1,250,000 -- which means that, after taxes and closing costs, they doubled their net worth in two and a half years. While they rented it out, they fetched as much as \$5,500 per week in the high season. Overall, they booked just about \$300,000 in rentals during the 21 months they were at it. The Murphys, of course, are excited to have saved their retirement. "It's been a fabulous experience, including eight very pleasant visits to Costa Rica," Tom said.

### You can't take it with you

The Murphys are cashing out of their Costa Rican home, and it's giving them the financial security they wanted all along for their retirement. "Taking into account our stage in life and the uncertainties of doing business in a developing county, we feel it's prudent to harvest the fruits of our efforts," he said. So late-starters to the retirement game should think about rental properties or fixer-uppers in Costa Rica to make back their retirement egg, right?

Not so fast. While his story proves that there are many roads leading to retirement, it's by no means a primer. "Our rather unorthodox experience illustrates that anything is possible," Tom says. "In our case, I had to get real serious about solving my retirement problem before taking truly decisive action. The fact that those eleventh-hour actions now appear to have been effective is more luck than effective strategic planning."

### There's no substitute for planning

The Murphys' retirement success story speaks to a few crucial retirement lessons. First, have a plan that will get you to exactly where you want to be. And make sure your goals are clear, exciting to you, and measurable. In Tom's words, "Financial independence is tangible and motivating."

Second, get started sooner rather than later. Because Tom was already close to retirement when he realized he needed more financial resources, he and his wife had to assume the added risk of second mortgages, balloon mortgages, and doing business in a foreign country to make financial independence a reality for them. Simply put, the sooner you get started in your retirement plan, the less creative you need to be to make financial independence a reality.

Third, make sure your retirement plan matches your timeline and risk tolerance. Tom says he got out of the market because of the negative effects volatility was having on his wife. That's a classic example of a financial plan that does not match the personalities of the people the plan was constructed to help.

No matter what you invest in, the key to investing successfully is to allow the power of compounding to build your wealth over time. This means you need to be in the market for decades. If you're a risk-averse person, a volatile MI strategy is not for you. Instead, build a portfolio around low-cost index funds.