

## **Battle of the Supermodels**

***By Ed Sheppard***  
**The Monitor Group**

Paris Hilton has announced that she will retire in two years now that she has succeeded in elevating her name to "brand" status and, Paris concludes, she has enough money to never work again. We can't all be former models or hotel heiresses with a show on Fox, but even with all these assets, Paris may have a blind spot or two that could render her "retirement plan" a disaster. Check out the methodology behind this model's plan as it is compared to a model of a different type called stochastic modeling. You may just walk away deciding there is at least one aspect of your life you don't want to look like this supermodel's: your retirement plan.

Hilton Plan (also called Straightline or Deterministic)

- Paris need only worry about how much money Daddy will give her (one variable)
- She assumes nothing will change - like her "brand status" - and things will go exactly as she planned (one scenario)
- This retirement plan presumes no change for the worse (assumes risk-free deterministic growth)
- Paris doesn't seem like the type who will go out and work for a living if something goes wrong (she assumes her behavior does not impact her future)

Stochastic Modeling (also called Monte Carlo analysis) - here are the characteristics rendering stochastic modeling a more effective process for retirement planning:

- Multi-Variable - Many life events and changes will affect your future income
- Multiple Scenarios - The future is uncertain, and a Monte Carlo analysis will run thousands of scenarios to illustrate the most realistic picture of your future.
- Risk Analysis - The variability of returns (also known as risk) may be the factor that makes or breaks your retirement plan.
- Personal Behavior - You are an intelligent being who has the capability of responding to life events by changing your financial behavior. By allowing conscious decisions to improve your chances

for success (or failure, depending upon the wisdom of your actions), stochastic modeling delivers a more life-like analysis.

- Paris Hilton's plan is actually an assumption or hope nothing will change as life unfolds according to her plan. She ignores the uncertainty of life, since the only thing anyone really knows about the future is it will be different from what we expect.

Stochastic modeling factors in randomness and uncertainty when creating the most probable outcome for your financial future. It accounts for variability in future income, unforeseen increases in cash, volatility of investments, and many other variables all of which a deterministic plan would assume to be constant. By running thousands of scenarios, a stochastic modeling can determine the probability of your long term financial independence. This knowledge can allow you to take action now to improve your future.

\*\*\*\*\*

*The Monitor Group, Inc., is a fee-only financial planning firm located in the Tyson's Corner area of McLean, Virginia. As a nationally recognized wealth management firm, The Monitor Group provides investment and financial planning services to more than 190 high net worth client families in Northern Virginia, Maryland, Washington, DC and across the country.*