Talk of the Town

Retirement: A Fundamental Change in Life?

James D. Stillman

Ah, retirement: dreams of cruises, umbrella drinks on the beach, sleeping late, doing what you want , and spending more time with loved ones and close friends. If it's one thing I've learned over the past 15 - 20 years as a retirement planner, it's that most folks have not actually planned properly for retirement. Why? Your guess is as good as mine, but as much as I hate to say this - a good amount of the blame should go to financial advisors and brokers who serve the retirement planning community.

In my opinion, retirement represents a FUNDAMENTAL CHANGE in life. That being said, doesn't it make sense that a FUNDAMENTAL CHANGE should also take place in your portfolio and with your financial planning? In our office, we call this moving from "paycheck mode" to "retirement mode". Understanding the importance of this change is vital to your success in retirement.

Here's a very important point to remember when planning for retirement, and especially after retirement: ***the advisor or firm that got you to retirement may not be the best choice to get you through retirement!*** Look at it this way. I bet most of you had a 401k, 403b, SEP, IRA, or some other type of retirement plan while working. These plans would have a "menu" of investment choices. This menu was likely comprised of mutual funds, stocks, bonds, and a money market or stable value fund. Your plan was probably with a big financial firm like Fidelity or Vanguard. You became familiar with them, you knew how to navigate their website, and you became comfortable with them. Then you retire. And what did you do? If you're like most people, then you made few (if any) changes to your portfolio. If anything, you may have positioned more into bond funds vs. mutual funds or stock funds. Maybe you took it one more step and rolled over the funds to an IRA with another advisor, but basically kept your investment strategy the same using stocks, bonds, and mutual funds, even though you're now in retirement. Remember the old TV show "Lost in Space"? (I loved that show) Remember how the robot always would shout out "Danger Will Robinson, Danger Will Robinson" whenever Will was about to get in trouble? Well, consider us your "Lost in Space robot" if you are still applying these "growth & accumulation" strategies with most of your money while in retirement. "Danger retirees, danger!"

Here's the problem with keeping too much money in mutual funds, stocks, or even bonds while in retirement. TOO MUCH RISK! Now, I know markets have been hitting all time highs, and most folks have gotten amnesia lately, but please remember the crashes of 1987, 2000, 2001, 2002, and 2008. Lots of fortunes were lost, and it will very likely happen again. What if you rely on these savings and investments for income? Having to withdraw money from a depreciated asset really compounds the problem, and as we get older common sense says we have less time to recover losses.

Ask yourself this question: what's more important in retirement, guaranteed income or high growth? Safety or chasing 10% returns? We always explain to our clients that there are three phases to financial planning: accumulation, preservation, and distribution. These phases require different specialists for each. A growth or accumulation specialist is more than likely not going to be skilled in preservation and distribution strategies. They are fundamentally different. Also remember the fact that ***the point of growing assets in a retirement account is to give you the ability to provide income for retirement.*** That's what pensions did before we all got 401ks. It's about income in retirement!

If you are retired, it's time to look at your investing in a whole different light. What was appropriate for building a portfolio while you were working may no longer be appropriate now that you are (or should be) preserving and distributing your assets in retirement. Greed and fear drive most investment decisions. Pigs get fat and hogs go to slaughter! Common sense also goes a long way, especially when in retirement.

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Until next month,

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