When You're Serious…

by Bradley R. Newman, CFP®

Switching from investor to retiree…

One of the biggest problems for most investors is, unfortunately, one that they don't even know that they have; how to make the transition, both in mindset as well in portfolio structure, into retirement. For most of our lives we are myopic in our focus toward asset accumulation (how do I grow my portfolio?), but as you prepare for retirement the focus needs to shift toward asset distribution (how do I turn my portfolio into an income stream?). Let's take a minute to focus on the critical components of when and how to make that transition.

Quantify Your Needs

The first, and most critical, step in the process is to determine how much income you will need to withdrawal from your portfolio on an ongoing basis and how that will impact your portfolio. Detailed retirement planning will illustrate the extent to which you are over-funded or under-funded for retirement and will become a key metric in the ultimate determination of how to structure the Investment Policy for your portfolio.

Don't make these investment decisions in a vacuum; if you try to re-align your portfolio for retirement without going through this planning process in a disciplined fashion, your odds of making inappropriate decisions are high

Be Proactive

If you are age 50 or older and your advisor hasn't discussed the transition of your portfolio, you should ask why they haven't brought this issue to your attention.

Begin this process as early as possible, the earlier you can make changes, the less painful it will be – being age 60 or 65 when you find out that your are not fully-funded for retirement doesn't leave you with many options – you can spend less, you can work longer or you can do a combination of both.

Don't Take Risk You Don't Have To Take

Once you have a clear understanding as to where you stand in relation to meeting your retirement goals, you can begin to think about the level of risk that is appropriate for your portfolio. If you only need a 6% return to meet your goals, why have a portfolio structured with the inherent risk of a portfolio designed to return.

The most prudent course of action is to reduce your volatility as much as possible while still generating investment returns that will allow you to meet your goals. As you near retirement, your biggest concern should not be squeezing every last bit of return out of your portfolio, but protecting yourself from the major potholes that could be lurking around the corner.

As you may recall, there have been two major corrections in the past decade; the "Tech Bubble" and the recent "Financial Crisis". Will the next 10 years look like the past 10? I don't know. I certainly hope not, but you need to be prepared in case it does.

Structure Your Portfolio Based on Your Needs

Don't worry about what the market will, or won't do. Your overall Investment Policy should be based on your situation, your circumstances and your income needs. Chasing returns or chasing yields in an arbitrary fashion will not allow your reach your goals consistently.

Don't let the hidden agenda of an advisor pull you down the wrong path. There are too many opportunities for bad advice from advisors who do not follow a prudent and disciplined investment management process that can be directly tied to your specific needs; for example, taking too much risk, taking too little risk or making inappropriate sector bets.

Don't be talked into an investment philosophy or a product that you don't understand or feel comfortable utilizing. Many of the more expensive, less flexible and underperforming options will be eliminated by this rule.

The most consistent problem we see is people with investment portfolios that don't align with their situation, needs or risk tolerance – when in doubt, hire a truly independent, fee-only advisor for an independent evaluation.

Bradley R. Newman, CFP® is with Roof Advisory Group, Inc., an independent investment management and financial advisory firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that provides portfolio management and financial planning services for individual and institutional clientele. The firm's email address is invest@roofadvisory.com