The Five Biggest Threats to a Secure Retirement

BALANCING RISK IN RETIREMENT

If You Think You're a 'Conservative' Investor ... Think Again

Brought to you by
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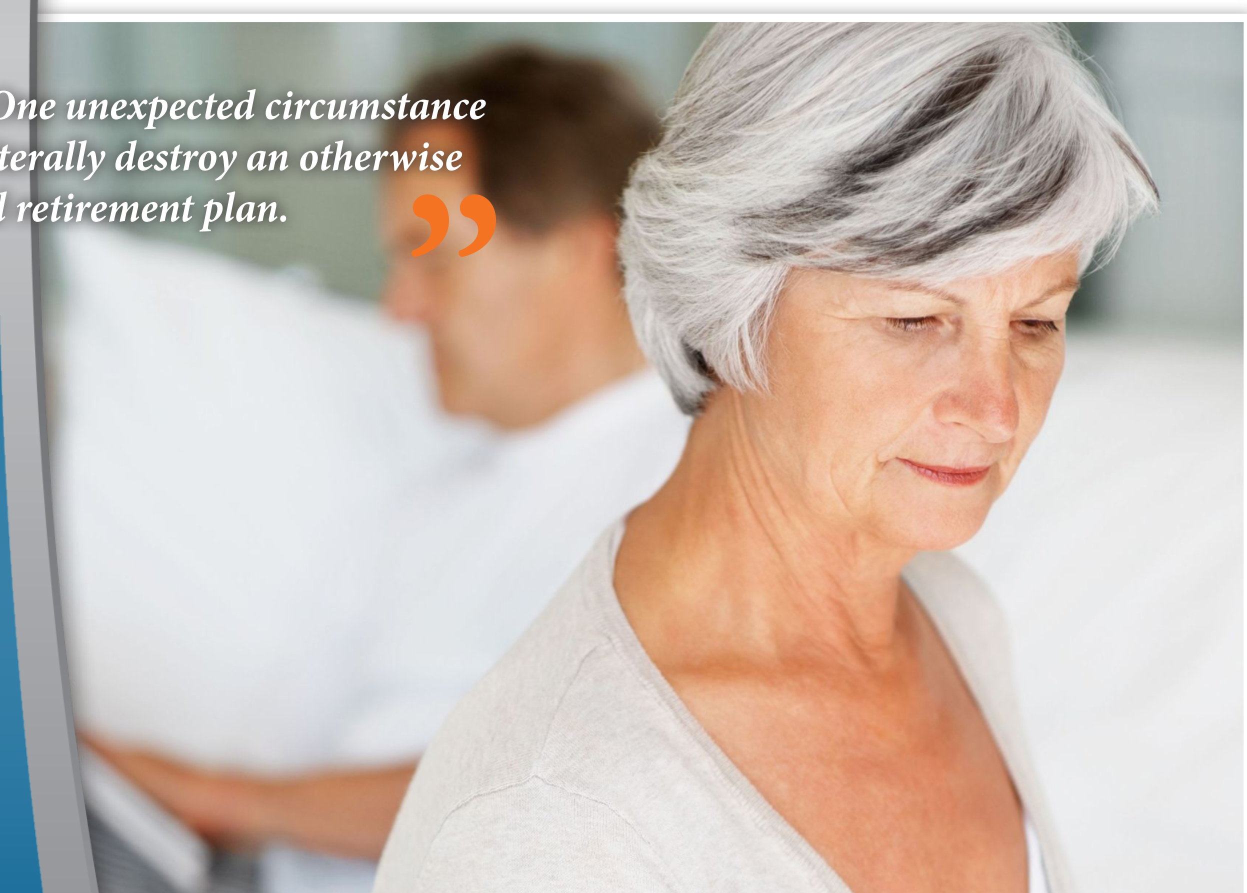
Balancing Risk In Retirement

Risk management is a fancy term that describes decisions you make every day. Here are a few examples:

- Because your feet could become wet and cold, you protect them with socks and shoes.
- Because your house could burn in a fire, you buy homeowners insurance.
- Because you could be seriously injured in a car accident, you wear a seatbelt.

Now, let's apply this logic to money. Can you finish this sentence?
Because you could lose money in the stock market, you …

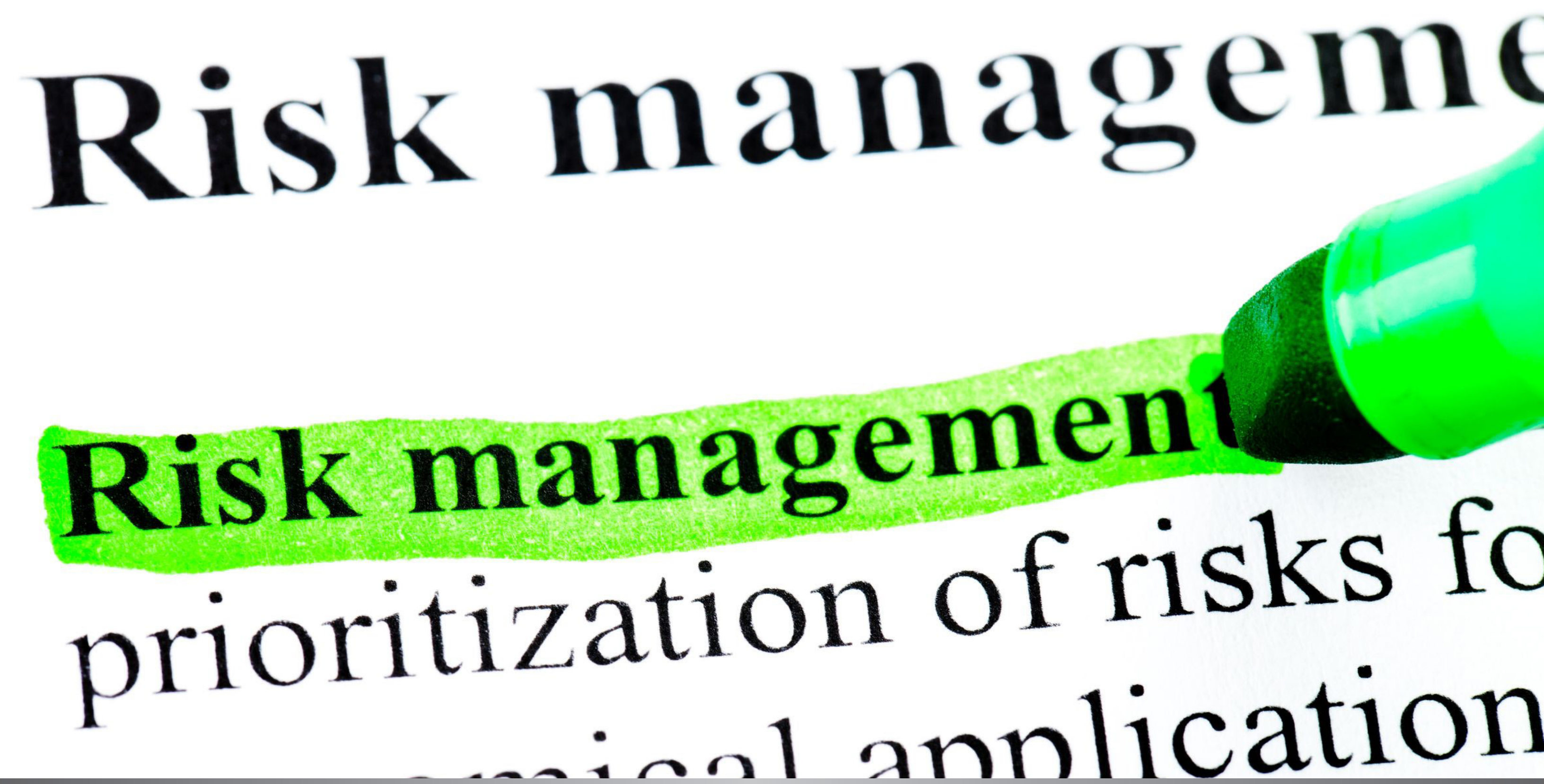
If you're unsure of the correct answer to this sentence, the following pages will be enlightening. However, before we explore options for controlling financial risk, let's take a closer look at what financial risk really is.



What is Risk?

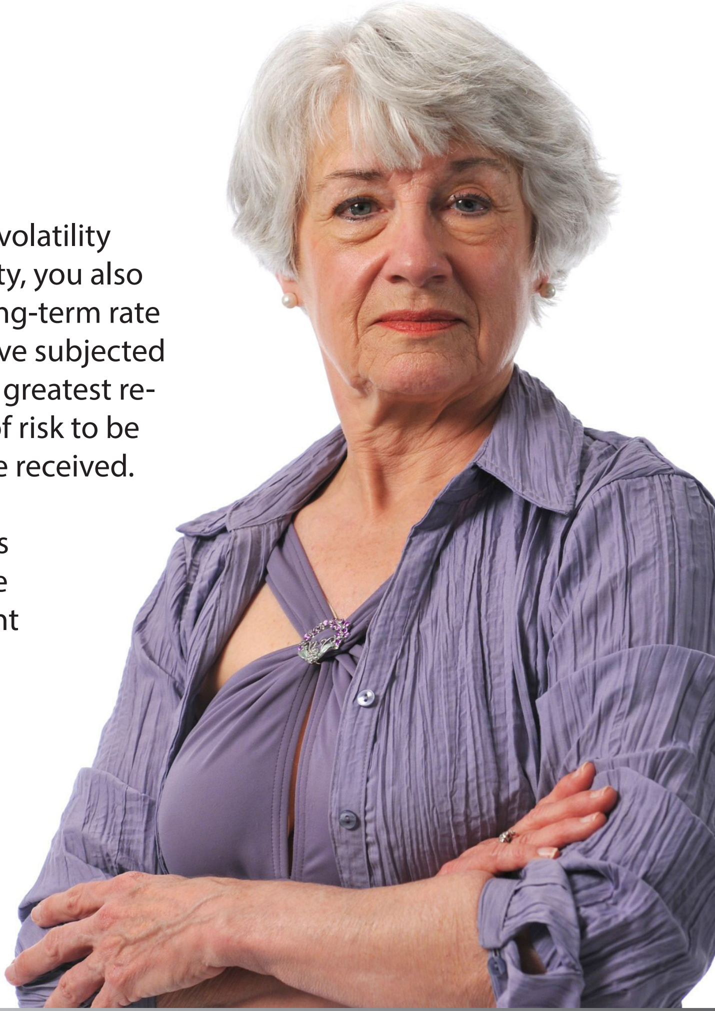
- Risk is the danger you face from unexpected circumstances or unwanted outcomes.
- Risk can never be completely eliminated. It is ever-present.
- Once risk is identified, it can be managed.
- Common financial risks include: Stock market volatility, loss of employment, loss of ability to work, or loss of a major asset such as one's home.

The naked truth: One of the most common mistakes retirees and near-retirees make in their planning is overexposing their assets to risk. Those who make this mistake often don't have a "Plan B." One unexpected circumstance can literally destroy an otherwise sound retirement plan.



How to Proactively Manage Risk

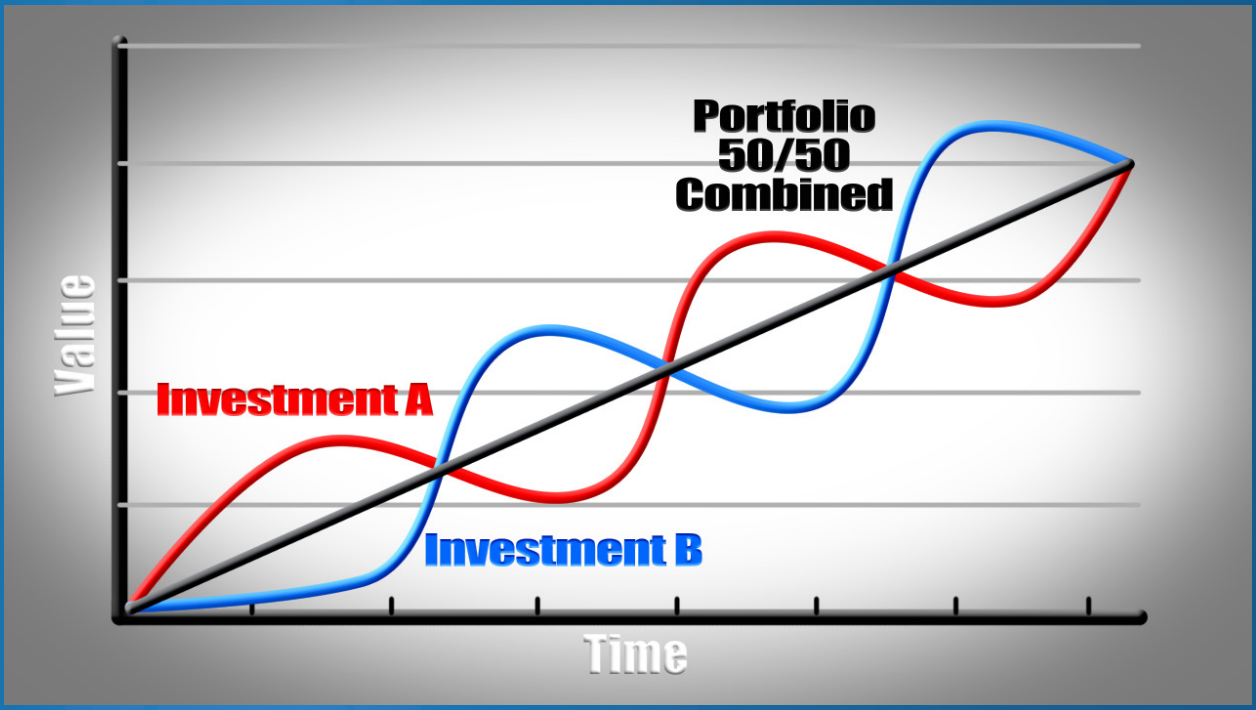
Large companies typically employ risk managers to help them identify and avoid unnecessary risks. Likewise, if you have assets to protect, you must serve as your own risk manager. Start by identifying a list of worst case scenarios. Then, outline the steps you should take to minimize the chance of these outcomes and control the risk. Let's go over some common financial risk management scenarios:



Risk #1. Investment Volatility

Every investment and savings instrument experiences volatility - some more than others. If you assume greater volatility, you also expect greater reward with the prospect of a higher long-term rate of return. Stocks, according to Ibbotson Associates, have subjected investors to the greatest risk, but have also yielded the greatest returns. You must, therefore, choose between the level of risk to be assumed, acknowledging the level of return likely to be received.

One commonly used strategy is to allocate investments among the different asset classes to manage risks more effectively. To a great extent, effective risk management depends upon effective asset allocation. The idea is to design the portfolio with investments in asset classes that have behaved with certain characteristics, which will not expose the investor to the most serious risks. The portfolio's performance is based on the behavior of the individual asset classes and the correlation among them.



Risk #2. Losing Your Job or Your Ability to Work

Steps to manage this risk:

▹ **Secure paycheck protection insurance.** For most working Americans, the ability to earn a paycheck is THE greatest asset they possess. Without a paycheck, basic necessities, like food and shelter quickly become a challenge. It's a good idea to get an individual disability insurance plan to protect you and your family from the risk of disability due to illness or injury.

▹ **Build an emergency fund.** Emergencies can place your entire financial life at risk. To avoid a financial catastrophe, it's imperative that you build a sizeable reserve, or emergency fund. This money will be used to pay your living expenses in the event of an unforeseen loss of income or sizable expense. A typical rule of thumb is to have three to six months of fixed expenses in reserve.

▹ **Develop passive income sources.** Passive income is income that keeps coming in even when you're not working. For example, if you own a rental home, you receive rent payments regardless of your employment status. Commission income can be another good example. If possible, look for opportunities to supplement your income with passive sources.

▹ **Explore entrepreneurial options.** Those who have been through a few corporate restructures will tell you that the only person you can really rely on is YOU. Corporations and shareholders are fickle. So, if you or your spouse have entrepreneurial yearnings, diversify your employment risk by dipping your toe into self-employment. Start small, don't give up your day job and see what develops.

▹ **Stay networked.** Get your continuing education credits, stay on top of trends, attend industry events, participate in LinkedIn groups and keep in touch with other people in your industry. These relationships can help you find a new opportunity fast, if you ever need one.

▹ **Use credit wisely.** Every penny you put on your credit cards that isn't paid off each month is a loan that must be paid back – with interest. When you can't control your credit card debt, you face the possibility of losing your credit. That means you may have a difficult time getting future loans when you may really need them.

Remember that not making a decision is making a decision. It's a decision to put others in charge.

Risk #3. Making the Wrong Financial Decision
(Or worse, no decision at all)

Steps to manage this risk:

- ▹ **Review and update your financial situation every year.** Inaction can hurt you! For example: Bob named his spouse as the beneficiary on his IRA. Over the years, he divorced and remarried. Then he unexpectedly passed away with his ex-wife standing first in line to inherit his retirement account.

- ▹ **Create a business succession plan.** Assumptions and poor planning have killed countless family businesses. Do your children want to run your business? Are they capable? Put a proactive plan in place before you retire.

- ▹ **Resist the urge to over-react.** In the past decade, hundreds of thousands have been lost due to hasty decisions. For example, Shelly was scared about the recession so she liquidated all her investments and put them into a money market account at the bank where they have languished. Her friend John, heard that China has the fastest growing economy on earth, so he moved all his money into overseas investments. These are examples of overreacting.

- ▹ **Remember that not making a decision is making a decision.** It's a decision to put others in charge. For example, if you don't have an estate plan, you might as well sign a document saying that the state is in charge of your legacy. If you don't like that idea, you have to DO SOMETHING.

Risk is unavoidable, but it can be managed. You can make intelligent decisions to protect yourself from every form of risk – except one. That is the risk of taking no action. The sooner you seek professional help in getting your questions answered, the sooner you can begin to reduce the risks you face right now. One of the surest ways to avoid unforeseen financial pitfalls is to work with a financial expert. Contact us today to schedule a free strategy session to discuss your specific situation.

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