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GUEST COLUMN

Learn from current adversity

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Guest writer

Although large events tend to bury us, it is still human nature to try to learn from them to improve the future. This is relevant now as we wonder if our economic turmoil will knock us down and out for the count.

There is much pain for the millions of newly unemployed, for those whose impending retirement has been postponed and those whose retirement income has been more than decimated. So what have I learned from the crash of 2008 and '09 (and perhaps longer)? How has the financial planner changed his own retirement plans?

If my health remains good, I will work longer. I am 64 now and will not start Social Security until my normal retirement age of 66. I plan to gradually reduce my work hours after age 66 and continue until age 70 or beyond. It's a good thing I like the job.

In addition to working longer before I retire, I made some changes for my own retirement accounts. These involve modifying what I am doing from being a growth investor to an income investor. I have not given up my confidence that the economy and the investment markets will turn up in the future, so I have continued making my monthly SIMPLE IRA contributions at the same level and into stock investments.

One change made in this portion of my retirement accounts is that I added a cash account to the mixture. Then I directed the IRA company to transfer dividends and capital gains into the money market account. Here's why: If one has the dividends and capital gains moved into a cash account as they are realized, then they will be conserving some profits for income while times are good to be spent when times are not so good in the stock market.

This leads to the question ignored by too many of us lulled by the long bull market ending in 2000. What will happen to our retirement income if the market takes a dive for a few years? Most of us retiring in the future will not have a monthly pension. Social

Security will cover only one-third to one-half of the needed income for a middle-income person or couple retiring today. So how we manage our 401(k)s and IRAs will determine whether or not we will run out of money before we run out of steam.

One method of dealing with the uncertainty of future retirement income is to use a time-segmented approach.

For example, capital needed for income during the next five years would be placed in very conservative income investments and be liquidated during this time period to provide current monthly income. Assets needed for income in years 6-10 would be in less conservative investments and would be moved to very conservative investments as gains are realized. This second five-year segment would be used to replenish the first five-year segment as time passes. Funds needed beyond 10 years would be in more growth-oriented investments and would be moved into the 6-10 year segment when gains occur, and so on for the time period of retirement income need, often 20-30 years.

Some have concluded that they never should have had their 401(k) or IRA money in the stock market. This may seem reasonable as we stand in the ruins of the current bear market, but the trade-off for using investments like FDIC-insured deposits is that it is unlikely you will earn enough over time to maintain purchasing power.

—David M. Smith is an investment adviser representative for Lifetime Planning Inc. in Camarillo. This article is not a recommendation to buy or sell securities, or a recommendation of any particular asset allocation strategy. The comments are not intended to represent investment advice that is appropriate for all investors. Each investor's portfolio must be constructed based on the individual's financial resources, investment goals, risk tolerance, investing time horizon, tax situation and other relevant factors. Please discuss such issues with your financial adviser before implementing an investment plan. This disclosure is required by Rule 2210 of the Financial Industry Regulatory Authority.