Retirement Planning, Part 8
By Gary Case

In this series of columns I have been discussing lifetime income planning. Recently, I've written about longevity risk and inflation risk. This column addresses asset allocation risk—not having the correct mix of assets to generate both current income and future (inflated) income.

Pre-retirees' accumulation plans can be sharply set back—and their retirements possibly delayed—if their lifetime savings portfolios are over-concentrated in stocks when a serious bear market strikes. Retirees who rely on fixed incomes and are uncertain of their time horizon must, of necessity, care more about current returns than about long-term averages.

However, fear of being caught in a bear market causes some retirees to overreact to a down cycle by selling most or all of their equity holdings and aiming to meet lifetime income needs solely with cash and fixed income investments. But retirees should recognize that they, too, may have sufficient time to benefit from wise asset allocation strategies and carefully-sequenced plans for asset drawdown to maximize the long-term income potential of any given pool of wealth. This is especially important to recognize in the wake of several down years in the stock market.

Unless retirees have huge cash resources relative to their needs, adopting such a strategy can be quite dangerous to their financial health. Why? Because it eliminates the long-term upside potential and inflation hedge that stock investments offer. Such a strategy may prove to be the mirror image of another typical investment failure; young investors failing to acquire diversified stock holdings in their working years. Other investments, such as direct real estate, equipment leasing, and other "alternative" investments become much more mainstream when considering a combination of income and growth needed from retirement portfolios.

Maintaining a properly allocated portfolio can greatly assist retirees in meeting their lifetime income needs. Longer planning horizons require greater exposure to investment vehicles that produce some growth, such as stock, real estate, and other equity type investments. The risk of depleting assets is much greater for portfolios containing too low a percentage of equities.

Even in retirement, the key to long-term success can lie in a balanced asset portfolio—neither all stock (bear market risk) nor all bonds and cash (no inflation hedge). Your financial advisor should provide guidance as to how to evaluate and position your portfolio for lifetime income.

Gary Case, CFP™, Cornerstone Financial Planning, *is a registered representative and investment advisor representative of Lincoln Financial Advisors Corp., a broker/dealer (member SIPC) and registered investment advisor, Nampa, 466-1971, offering insurance through Lincoln Financial Advisors, Limited Liability Company, and other fine companies. This information should not be construed as legal or tax advice. You may want to consult a tax advisor regarding this information as it relates to your personal circumstances.*