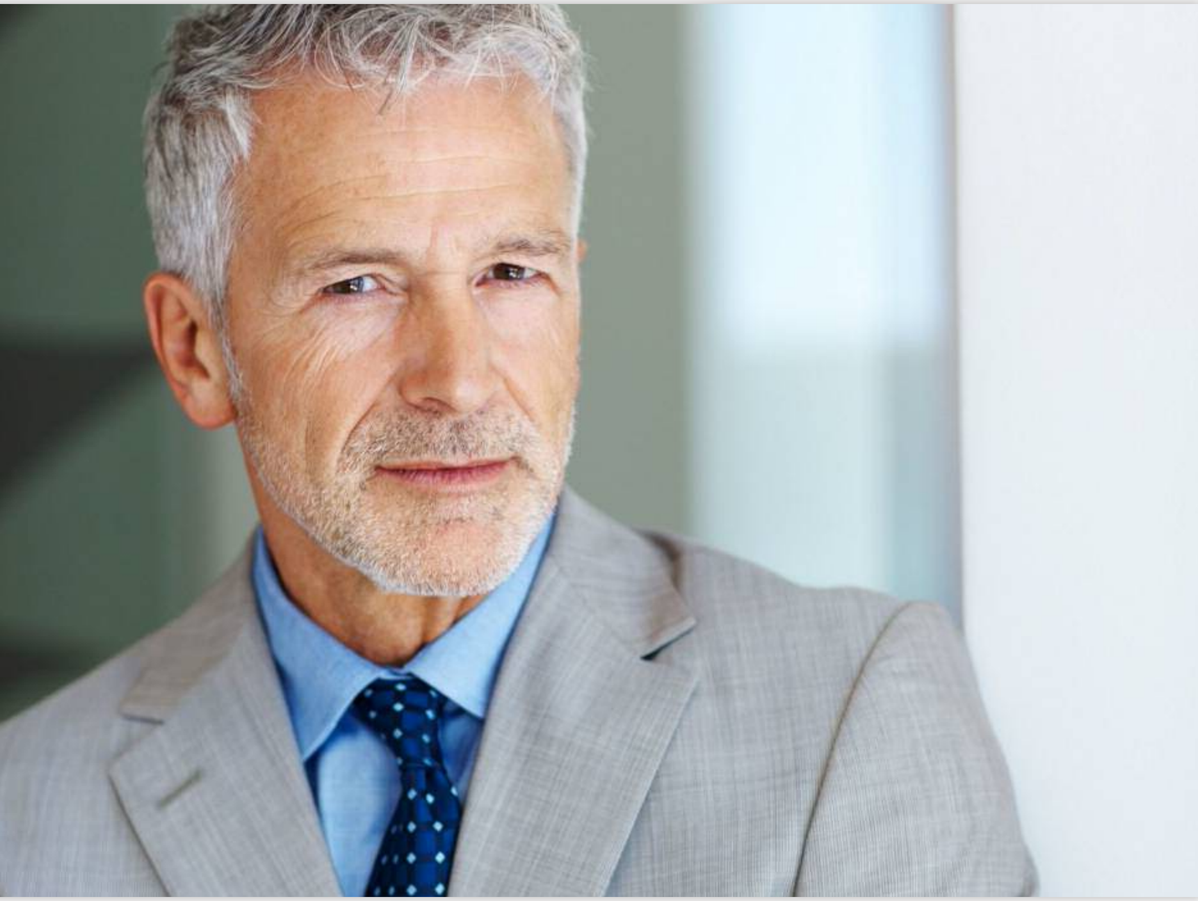
Balancing Risk In Retirement

Allocating Your Assets for Retirement



The Rule of 100

Consider this overlooked strategy

A Common Overlooked Retirement Risk

Life is full of risk; that's why as adults we routinely make choices to reduce our chances of loss. We wear seat belts, lock our doors, get flu shots, go in for annual physicals, etc.

It seems easy but consider this: could there be hidden risk in your retirement investments? If you're unsure, keep reading. The following report will reveal the most dangerous, yet often overlooked, retirement investment risks. You'll learn how one simple rule can help you take control and may position your portfolio and retirement assets to reduce your risk if there is a market downturn.

As a general rule, the younger you are the more you can afford to take risks because you have more time to bounce back from losses.

The Risk Continuum

As you are probably aware, different financial vehicles carry different levels of risk. However, some financial vehicles may also be safer than others. On the retirement planning continuum, safer assets generally do not offer higher growth potential but are less likely to decrease in value. These financial vehicles include savings accounts, CDs, bonds, and insurance products such as fixed annuities. On the other end of the spectrum are the "riskier" financial options. These have greater earning potential but also have a greater chance of losses due to market decline. For example, buying individual stocks can lead to great returns but can also be very risky.

Safer Financial Vehicles:

- Savings Account
- Certificate of Deposit
- Bond
- Fixed Annuity

As a general rule, the younger you are the more risk you can afford to take because you have more time on your side to bounce back from losses. However, as you age and draw closer to retirement, the percentage of your retirement assets you expose to risk should decrease as a rule of thumb. But by how much, and how do you know how much you currently have at risk?

Practice The
RULE OF 100

One essential guideline to investing is the Rule of 100. This basic principle is simple: subtract your age from 100. The resulting difference is the maximum percentage of your savings that should be placed in risk-based investments.

As you grow older and closer to retirement you should consider reducing the amount of risk you take and, as a result, your chances of losing money. By moving investments to less riskier accounts or insurance products, you can improve the odds that your principal will be there when you need it.

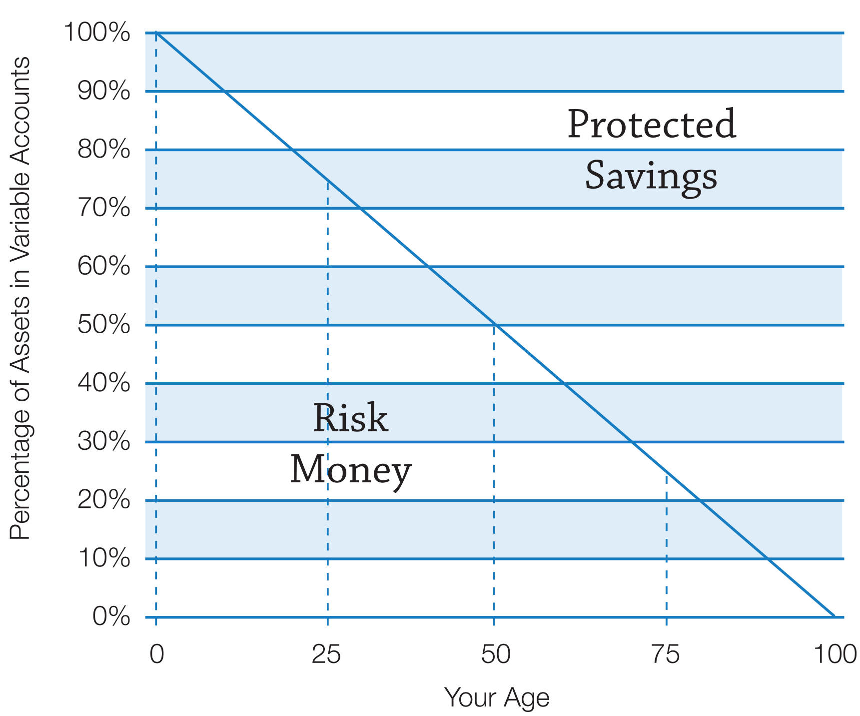
Knowledge Is Power

To increase your financial stability, you must be actively aware of your investments and the levels of risk you carry. Many people learned this lesson the hard way during the stock market crash of 2008. The market took enormous hits and as a result, so did investors, some losing as much as half their account values. For many people nearing or already in retirement, the crash of 2008 was a life-changing event - one they may never recover from. Some had to keep working longer than expected to make up for losses while others had to go back to work after being retired or face drastically adjusting their lifestyles.

The sad statistic is that many who were adversely impacted thought they were invested much more conservatively than they actually were, or worse yet, thought their advisors were taking care of them. Instead many "advisors" were neglecting their client's accounts, overexposing their client's assets to risk.

This isn't to say advisors were purposely intending to hurt their clients, but many simply hadn't paid attention to how aggressively their clients were invested. Many clients take a lot of risk early in life when they begin saving in their 20s and 30s, banking on a higher risk/reward philosophy. However, in their 50s and 60s, their assets should have been strategically shifted into safer investments. Those clients who didn't make this crucial adjustment paid dearly for the oversight.

THE RULE OF 100



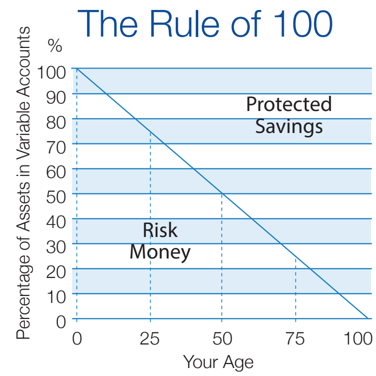
Three Fundamental Strategies

Below are three fundamental strategies to help you manage your portfolio risk and get the most out of your investments.

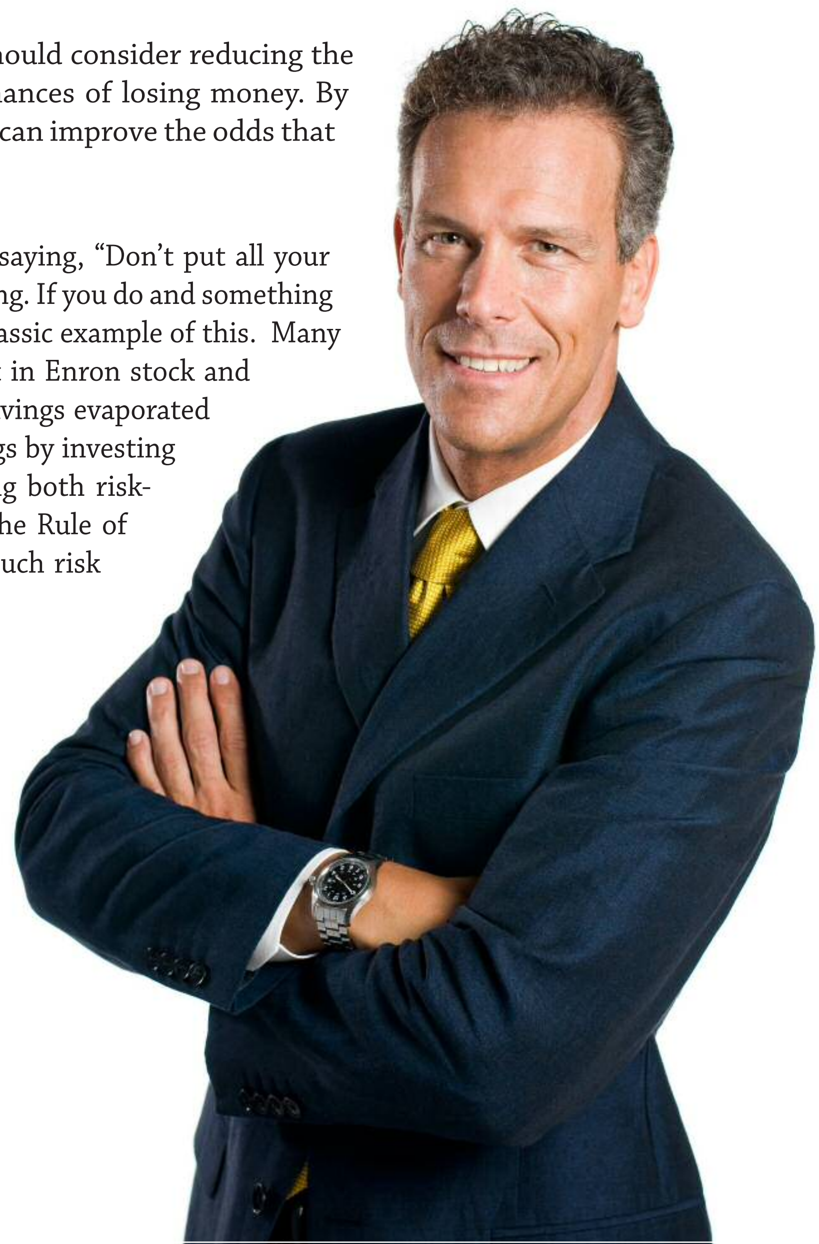
- **Practice the Rule of 100:** One critical rule of investing is to remember the Rule of 100. This basic principle is simple: subtract your age from 100. The resulting difference is the maximum percentage of your savings that should be placed in risk-based investments.

  57-year-old example:
  100-57 = 43. Therefore, it is recommended that you place no more than 43% of your savings into risk-based investments. The remaining 57% should be held in "safe" accounts.

  As you grow older and closer to retirement you should consider reducing the amount of risk you take, and as a result, your chances of losing money. By moving investments to more secure accounts, you can improve the odds that your money will be there when you need it.



- **Diversify Your Investments:** We've all heard the saying, "Don't put all your eggs in one basket." This is certainly true with investing. If you do and something goes wrong, you risk losing everything. Enron is a classic example of this. Many who worked for Enron placed all of their retirement in Enron stock and when the company went under, their hard earned savings evaporated literally overnight. Consider diversifying your savings by investing in several different types of asset classes, combining both risk-based and safe investments. This is exactly where the Rule of 100 comes into play, helping you decide just how much risk you can afford to take while still maintaining a stable retirement fund.



Consider Annuities: Annuities are accounts with insurance companies that are known for guarantees. The basic premise is that you invest your money in an annuity and at a future date, the annuity provides you with several options for drawing income for retirement. Annuities will often offer higher potential returns than other "safe" investments while also providing the comfort of a guaranteed minimum return.*

Please note that no two annuities are alike. There are some that carry just as much risk as traditional stock market linked investments and these are known as variable annuities.** The types of annuities that provide guarantees are known as fixed and indexed annuities. Both provide protection against downside risk, but while fixed annuities provide you with a fixed rate of interest much like a CD, indexed annuities generate your return by linking your account to specific stock market induces, hence the name, indexed annuities. Again, the differences from one annuity to another can vary greatly so do not invest in anything before consulting with a qualified advisor.

*Guarantees are backed by the claims-paying ability of the insurance company.

**Variable annuities are long-term investments designed for retirement. The value of the investment options will fluctuate and, when redeemed, may be worth more or less than the original cost. Withdrawals and other distributions of taxable amounts, including death benefit payments, will be subject to ordinary income tax. If withdrawals and other distributions are taken prior to age 59 1/2, a 10% federal penalty may apply and a withdrawal charge may also apply.

In Conclusion

We all witnessed, and many of us experienced first hand, the devastating effects of the 2008 stock market crash. In fact, some retirement accounts may never fully recover. However, despite this hard lesson, many retirees now in their 60s, 70s, and even 80s still continue to carry much more risk in their portfolios than is appropriate. Many because they are completely unaware of the Rule of 100, others because they allow their assets to be controlled by someone who is not acting in their best interests. Don't make these mistakes! Consult with an advisor today and learn for yourself how your portfolio stacks up to the Rule of 100.

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