CONSERVATIVE FINANCIAL SOLUTIONS

Common Financial Mistakes

A Five-Part Series on Common Financial Mistakes Made by Pre-Retirees & Retirees

PART TWO: INVESTMENTS

Investing during retirement is much different than investing for retirement. This fundamental principle is often overlooked when it comes to retirement income planning. When you started saving for retirement, you had a particular goal, save as much money as possible. So, you saved what money you could with the idea of one day being financially independent. As a retiree, the objective is to no longer accumulate a vast amount of wealth, but it is now important to properly manage what you have accumulated.

During retirement, your nest egg (the wealth you accumulated during your working years), should now provide the financial resources for what goals you set for retirement. This nest egg should provide income to pay for every day expenses, health care, travel, spoiling the grandchildren, and the list continues! In some cases, this nest egg will need to provide financial income for more than thirty years!

Common Mistake #2: Misunderstanding Risk

In Part One, I shared the first common mistake is not having a plan for retirement. The second common mistake goes hand in hand with the first, it's misunderstanding risk.

"I tell my clients, I want their investment lives in retirement to be boring, so their actual lives during retirement can be full of excitement!"

— Roger Ford

Too often, when I evaluate portfolios of individuals near retirement, they are filled with an incredible and unnecessary amount of risk. They haven't been advised properly on when and how to help reduce their portfolio's risk as they plan for their anticipated income needed during retirement. I have seen portfolios that are in danger of losing more than a quarter to a third of their value if faced with another economic downturn like the ones we faced in the early 2000s[1] or the financial crisis of 2008[2]. Can you imagine what retirement would look like if your portfolio lost a quarter of its value?

Preparing for retirement consists of building a portfolio with a responsible amount of market risk as well as generate a steady and predictable income stream. I tell my clients, I want their investment lives in retirement to be boring, so their actual lives during retirement can be full of excitement! Retirement is not a time to be on a swing of more than a 5% loss and a 15% gain, it doesn't make sense to take on more risk at this time of life. The key to having a successful retirement begins with having a plan and managing the amount of risk in your investment portfolio.

[1]https://en.wikipedia.org/wiki/Early_2000s_recession
[2]https://www.investopedia.com/articles/economics/09/financial-crisis-review.asp

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