The Changing Landscape of Retirement

What you don't know could hurt you.

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FOREWORD

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Mark Singer has been involved in the financial planning business for over twenty-five years, and thus has observed many changes in the industry. During this time he's collected the stories of clients who have weathered many different business environments, but he's never seen as much confusion about options as in this current financial environment — and *The Changing Landscape of Retirement* reflects some of the new rules and approaches designed to promote more flexibility in retirement planning as a whole.

His is not a "one answer fits all" approach, but provides an important emphasis on keys to finding the types of answers that fit each reader's unique financial goals and perspective. As such it presents a method, not a formula — and this makes *The Changing Landscape of Retirement* more versatile than most retirement guides.

Money and lifestyle needs, sources of income streams and their different requirements, purchases and travel needs during retirement years, and other concerns all contribute to different “benchmarks” for retirement income goals. Financial decisions currently are too often based on fear rather than reality — fear of what adversely changing markets will do to retirement income streams.

Not planning for inflation and taking too much money from a retirement portfolio are only a few of the issues Mark Singer tackles in *The Changing Landscape of Retirement*. Add in the fact that retirement goals change over the decades but investment portfolios are often not adjusted to reflect these changes, and you have a conundrum that *The Changing Landscape of Retirement* addresses — the lack of flexibility and adjusted options and vision in retirement objectives.

New lessons geared to volatile, uncertain market conditions and changing consumer needs promote flexibility in vision and thinking, focusing on coordinating goals and understanding planning lessons key to retirement success. Chapters discuss changing scenarios which require redefining objectives, they show how to create a more flexible “Retirement Roadmap,” and they tell how to coordinate paperwork and planning to achieve a unified yet movable set of objectives.

From special issues women face to selecting a financial planner or planning firm, this tells how to create a plan, coordinate different objectives, bring them all together, and then maintain a type of flexibility that can easily adjust to both changing markets and changing retirement goals.

Add in case history examples from Mark Singer’s clientele and you have an outstanding, well-balanced survey highly recommended for business and consumer libraries seeking a successful strategy versatile enough to apply to a range of concerns.

INTRODUCTION

Charles Dickens wrote, “It was the best of times, it was the worst of times…” In my 25 years of experience in the financial services business, it seems that of late all we’ve really been experiencing are the worst of times. The stock market has been flat for a 10-year period; the headlines seem to indicate that we are going to be in a continued period of uncertainty and volatility, and for many, this means redefining what their ideal retirement was supposed to be.

In my recent interactions with clients, I have heard and seen a level of frustration that I have not seen since I first entered this business. And if my clients, who are as informed as any individuals through our proactive communications with them, are frustrated, then I can only assume that the masses are frustrated as well.

For 25 years I have been putting into my “book” file many of the experiences and stories that I have been witness to as president of a retirement planning firm. I never really knew when or if I would write the book. However, as a result of hearing over and over again the heightened level of frustration of those who are transitioning into retirement, or those recently retired, I felt that this was as good a time as any to address the changing landscape of retirement.

My objective for this book is not to write a timeless masterpiece but to address the mistakes, from both an investment and a planning perspective, that I see many people making in the current environment. Early in my career, when a problem arose, one of my first bosses instructed me to enter his office not only with the problem but with a solution as well. So I hope that I not only share with you some of the issues and concerns I've listened to, and mistakes I've seen people making, but also offer a different perspective on how to accomplish your retirement goals.

One of my favorite expressions, and I'm sure my staff will roll their eyes when they read this, is that I like to take a look at things from 30,000 feet. I intend to take the focus away from specific investment tips or asset allocation ideas and move the conversation to what is truly needed, which is to coordinate all the conversations with regard to retirement in such a way that you will know whether or not you are on the right track.

There is a wonderful quote from "Alice in Wonderland" that goes like this:

> "Would you tell me, please, which way I ought to go from here?"
> "That depends a good deal on where you want to get to," said the Cat.
> "I don't much care where—" said Alice.
> "Then it doesn't matter which way you go," said the

> Cat.
>
> "—so long as I get SOMEWHERE," Alice added as an explanation.
>
> "Oh, you're sure to do that," said the Cat, "if you only walk long enough."
>
> (*Alice's Adventures in Wonderland*, Chapter 6)

I am sure that we will all get somewhere if only we walk long enough. Unfortunately, in the world of retirement planning, without understanding exactly where it is you need to go and how you wish to go there, you may wind up in a place you did not intend to be in the first place. My hope is that when you finish this book, you will have a better sense of not only where you wish to be but how you would like to get there.

I offer you one final thought — and that is that there is no *one* right answer for everyone. What you are truly looking for is the right answer for *you*.

Several years ago, I had the opportunity to hear Yann Arthus-Bertrand at a conference I was attending. He was sharing with us a sampling of the hundreds of photographs he had taken for a book he had recently published called "Earth from Above." He told the story of going to a mountaintop in Switzerland and hoping to get a particular picture of some of the flowers that were on that mountaintop. When he got there, he found that the flowers he was hoping to photograph had lost their peak bloom as the result of a recent storm, and no longer represented the image he thought he was going to be taking. He told us he was disappointed that he was unable to get the photograph he had envisioned but then realized that if he just changed the angle from which he was taking the photograph, he could see the flowers from a whole different perspective. At that moment, he found the answer that was right for him, which was different than the answer he thought was right originally.

His message was that there is more than one right answer, and I hope you will find the answer that is right for you when you read this book.

If you do find solutions to your retirement planning questions in this book, I recommend that before you move forward that you consult your team of financial advisors.

INTERACTIVE WORKSHEETS

I've created a number of different worksheets that you can use to help apply the principles in this book to your own personal retirement journey. Just look for the icon shown to the left and then go to:

www.yourretirementjourney.com/worksheets

CHAPTER 1
MISTAKES

My Trip to Disney World

If you are like me, at some point your child or children were old enough that you took them to Disney World. My daughter was seven years old when I decided it was time that we go down to the land of wonder. Actually, what prompted me to go was that I had just attended an educational conference where one of the speakers was one of the senior marketing executives for Disney. He started out his session by asking those in the audience, and there were several hundred, how many had been to Disney World. Just about every hand in the room went up, except mine. So I figured it was time.

The first thing I did was take a look at the calendar and see where we could have an extended period of time to go down to Disney World; as it turned out, it was the Veteran's Day weekend during what happened to be the 25th anniversary celebration of Disney World. The next order of business was to go get The Book. You know what book that is: the book that tells you what rides to go to during what time of day and how long to expect to wait. Typically, I am not that much of a planner when it comes to these types of trips; however, it turned out to be one of the best investments I could make.

I did my research and found out which rides I should go on, and it absolutely made a tremendous difference in maximizing the time that we had in Disney World. So we spent less time in lines and more time having fun.

Another part of the research was finding out which airlines flew down to Orlando and how much it would cost. I also exercised extensive due diligence in reviewing the different types of accommodations, both on and off property, that would be suitable for our visit. We selected our flights, stayed on property at a wonderful resort, and ended up having the time of our lives. Upon my return, I created a book of memories that my daughter and I will cherish for many years to come.

So the question you may be asking is, why am I telling you about my Disney World trip?

The answer is that for most people the type of research and due diligence I spent in planning the trip to Disney World is more time and effort than they will spend planning for their retirement. Interestingly, planning for Disney World is not too unlike planning for your retirement.

When planning for the trip, we had to understand what our goals were. How much time were we going to spend? What was going to be our budget? How were we going to travel? Did we want to go by car or by plane? Do we want to go nonstop or save money and utilize a one-stop flight? Did

I want to spend premium dollars to get extra value from the resort where we would be staying? Did I want to spend as little money as possible on the accommodations, yet spend more money for a better dining experience? These were just some of the issues I had to deal with when planning the trip.

All of this planning centered on my objectives and the budget I had for my trip. It was not unlike the effort needed to set in place the planning necessary to pursue the retirement of my dreams. And, believe it or not, the questions are similar:

How much money do I need on a monthly basis to sustain the lifestyle I desire? How much income will be coming from my pension or Social Security? What type of travelling, family events, celebrations or purchases will be important during my journey into retirement? How much risk do I want to take with my portfolio? To whom do I want to leave my money when I die?

So, as you can see, there is research to be done whether you are planning your trip to Disney World or planning for your retirement journey. You need to set out what your objectives and goals are and understand the trade-offs of pursuing one avenue versus another.

The reason I started off this chapter with a story about Disney World is because I believe that the biggest mistake that most people make when it comes to their retirement is they do not plan for it. They take the same route as Alice in the story from "Alice in Wonderland," in which the cat tells Alice that surely she will get somewhere as long as she walks long enough. It may not be exactly where you wanted to get to, but you certainly get somewhere.

Knowing You Are On the Right Track

When my daughter was 15, she went on her first train ride alone. She was headed to a chorale rehearsal on the North Shore of Boston. She went to the train station and boarded the train. When the train started moving, I am sure that she was talking to those around her, because she likes to make friends with everyone. The conductor came up to her and asked her for her ticket, which she gladly handed to him. The conductor gave her the ticket back and said that he hoped she would have a good time in Boston.

Unfortunately for my daughter, the train she was on was going in the wrong direction.

She needed to be on the northbound train; however, she boarded the train going south. The reality is that she was on a train headed towards what she thought was her intended destination. Since this was her first time on the train alone, she was unaware of the fact that it was headed in the wrong direction. How was she to know; she had never done this before!

For many who are thinking about transitioning into retirement, this too is a first-time journey. And even though you may be headed towards "a destination," you may not know that it is not the "intended destination." *Many of us just don't know what we don't know, and therein lies a huge problem.*

If you don't know what questions to ask, and most don't, then it is very possible that you are on the southbound train when you were supposed to be headed north. It was easy for my daughter to get off the southbound train at the next stop and get onto the train headed in the right direction. The mistake that she made only meant that she was late for her chorale rehearsal. Unfortunately, some of the mistakes that you will make when planning for your retirement may not be so easily reconcilable.

It is very important to recognize what you don't know because, without this information, you may make mistakes that will undermine your definition of a successful retirement. Without the benefit of a properly designed Retirement Roadmap, you may be headed in the wrong direction.

The Retirement Roadmap

A Retirement Roadmap is a planning system that transitions your financial life from the Accumulation Stage (the working years) to the Distribution Stage (the retirement years).

It takes the mystery out of financial planning by answering the question "Can I do this, and do it when and how I want to?" The Retirement Roadmap asks the questions that help you navigate the deeper waters of retirement. The three most important questions it asks are:

- Are you and your spouse able to lead the retirement lifestyle you desire?
- Will your spouse be taken care of when you are gone?
- Have you adequately provided for your kids and for your family's legacy?

Proper Benchmarking

There is a popular advertising campaign that addresses the concept of knowing what your "retirement number" is. The first iteration of images was of people who were carrying around seven-figure numbers under their arms, smiling along the way to their destination, and then putting their "retirement numbers" in nice safe places.

With the market volatility, these images changed. At this point, you would see someone walking in the street with the number under his or her arm, and the number gets hit by the bus and falls to the street. That same person is in a restaurant where the number is set to the side and is subsequently set on fire as a result of the activities from the next table. Clearly the message had changed, indicating that there was now a rougher ride towards accomplishing your "retirement number."

The most recent image of this campaign is of an individual who is trimming the hedges, and above his head the words "gazillion bazillion" are in neon lights, symbolizing his "retirement number." When asked by his neighbor how he was going to accomplish his goal of achieving a gazillion bazillion dollars, the answer was that he was just going to continue to throw money as quickly as possible towards his retirement and see what happened.

This ad campaign has clearly been on target and has captured what many people have felt at various times: a sense of hopelessness and being jostled by markets that are volatile and uncertain. Clearly one of the messages from the sponsor of this ad campaign is that all you need to do is know what your number is and take care of it.

From my perspective, as cute as these ads are, they do not address some of the very real problems, and mistakes, that people have to be aware of.

The first issue is that most of the people carrying numbers under their arms had numbers that were well into seven figures. The numbers that reflected their "retirement number" were upwards of $1.4 to $1.7 million. In my experience, when

I tell somebody, either a client or a listener from one of my radio or television shows, that they have to accumulate upwards of $1.7 million in order to have their correct "number," there is usually a "deer in the headlights" look as a response. Few people truly recognize how to save enough money, given all of the day-to-day issues we all face, towards a goal that may be many years away.

I would submit that the message should have been not just what your number is, but how to discipline one's self to put away that kind of money. As important as knowing what "the number" is, is the understanding of what kind of risk we need to take and what time frame we have in order to accumulate the money necessary for our proper retirement nest egg.

The second issue I have with this ad campaign is that we don't tell people what to do once they have accomplished their goals. *One of the biggest mistakes I have found that most people make deals with this issue right here. Too many people continue to take more risk than is necessary with their investment portfolios, even after they have accomplished their "number," and end up losing a significant portion of their retirement nest egg, at just the wrong time.*

Many years ago, I spoke with an individual who was six months from retiring. He had enough saved in his retirement plan to create the desired retirement that he and his wife had dreamed of. That was the good news. The bad news was that his timing, and planning, could not have been worse. For this was in the late 1980s, and he was working for a very successful organization called Wang. He thought that as a result of having invested 100% of his retirement savings in Wang stock, he was a financial genius.

You know the rest of the story; two months before he was to retire, Wang stock dropped precipitously, devastating his retirement savings and rendering him unable to now pursue the retirement that he and his wife had dreamed of.

A couple of years ago, I met a woman who was preparing for her retirement. She was in her early 60s and was planning to retire within the next two to three years. The good news was that she had accomplished her number, and interestingly for her, her number was $1 million. The bad news was that neither she nor her broker knew what her number was. So what happened?

For all of her working life, she had been working with a series of brokers who had advised her to invest in such a way as to achieve as much growth as possible. While she was in her 30s and 40s, whether the market was going up or down was of little consequence because she had enough time to make up for a down market. Now, however, she was within a couple of years of retirement, and because she had achieved her number, which actually was the benchmark for her retirement success, it was necessary for her to change the investment objectives.

Because neither she nor her broker understood from 30,000 feet that she had actually accomplished her objectives, the portfolio remained with a growth orientation. In 2008, when the markets lost significant value, the $1 million portfolio dropped to $620,000, assuring that she could no longer retire as she had desired in two to three years.

It was not until after the markets had dropped in 2008 that we had the opportunity to speak. And it was not until then that she understood the importance of having a Retirement Roadmap and of successfully benchmarking the performance of the portfolio back to what her retirement objectives are. If she had understood the concept of the Retirement Roadmap, she would have changed the objectives for her investment portfolio to be geared more towards preservation than growth, potentially saving her portfolio tens of thousands of dollars in lost value. With a Retirement Roadmap, it would have been possible to retire according to her original plan. Without the Retirement Roadmap, she had no idea, nor did her broker, that she was headed in the wrong direction.

Mistakes

In this section, I will detail some of the mistakes that I have seen people make over the past 25 years. These mistakes seem to fall under two major categories, the first being planning mistakes and the second being mistakes made while investing. However, before we look at some of these mistakes, I think it is important to recognize a big issue that most people overlook, and that is the issue of how we deal with our emotions when planning for retirement.

The emotion that is most prevalent when I talk with people about their retirement is the feeling of great anxiety. Heading into the unknown, in this case retirement, can cause many sleepless nights. And while we lie awake at night wondering what lies ahead, we conjure up all sorts of scenarios where our planning could go awry.

The reason it is important to understand what emotions we are feeling is that typically emotion is the driving force behind our decision-making process. And if we are driven by our anxieties, our fear of the unknown, then it is possible that we will not be making the best choices for our futures.

The best example of making decisions based on fear is when we see those headlines in the newspaper, in the evening news or on the Internet that indicate that all or a part of the sky is going to fall down. Typically these headlines relate to market performance, and if the news is not good, then many are driven by panic to make changes to their investment portfolios. We all have been told that the worst time to make investment decisions is when we are driven by emotion (panic or fear), yet we cannot stop ourselves.

Will Rogers once stated, "I would rather have a return 'of' my money than a return 'on' my money." When we feel panic, we tend to revert to the feeling of just wanting to preserve our money in the short run, rather than continue to follow a well-crafted path of a balanced portfolio for the long run. This assumes that you have a well-crafted path, or a roadmap that you are actually following. For without this roadmap, it is much easier to allow your emotions to dictate the decision-making regarding your investment or retirement planning.

Another example of letting your emotions dictate your decision-making process is what I call the "fear of running out of money" syndrome. *Many of the people I have spoken to about retirement planning are fearful that if they spend money today, they will not have it available tomorrow. And this fear of running out of money becomes the primary force behind what you do, or do not do, in your retirement.*

If you are fearful of running out of money, you may not go on that trip you had dreamed of. You may cut back on the number of evenings you eat out with friends at restaurants. You cut back on the amount of money that you were going to give to your kids or grandkids. In other words, you end up not pursuing the retirement of your dreams but running from a retirement of your fears.

As we will talk about later in this book, the best way to overcome these fears is to have a Retirement Roadmap that can not only map out where you are supposed to go but also make a determination as to whether or not you are on track, and then make the necessary adjustments so that you stay on track. *The real benefit of a Retirement Roadmap is to take the mystery out of the decision-making process and to start making those decisions based on real fact, as opposed to being driven by the emotions of fear or anxiety.*

Planning Mistakes

Outliving Your Money

Several years ago, my mother got remarried. Her new husband's parents were still alive; Rose, who had become blind three years prior, was 97 years old, and Joe was 100. Rose and Joe had lived in the same house for almost 75 years, and one day Joe decided to go for a walk. Unfortunately, Joe could not figure out how to get back to the house. That was when the family decided Joe and Rose should enter a nursing home. So the family searched for a nursing home that would accommodate Joe and Rose's wish to be in the same room with separate beds.

One endearing part of this story happened the very first night that Joe and Rose were in the nursing home; Rose said to Joe that he should stay in his own bed because the beds they now had in the home were smaller than the beds they had in their own home. Having been married for so long, Joe was not about to sleep alone and joined his wife for that first night in the home.

PLANNING MISTAKES

- Outliving Your Money
- Not Planning for Inflation
- Taking Out Too Much Money
- Not Working with a Specialist
- Beneficiary Forms
- IRA Rollover Mistakes
- Having Too Many Accounts
- The Transition Into Retirement
- Not Understanding Time Frames

Joe and Rose were unable to attend the actual wedding ceremony for my mother and their son. So after the ceremony, about a dozen of us drove an hour north to the nursing home to reenact the wedding ceremony for Joe and Rose. My daughter, who at the time was about 13, stood next to Rose and did a play-by-play announcement for Rose, since she was unable to see, of the ceremony at hand. There wasn't a dry eye in the house.

I tell you this story not because I want you to know Joe and Rose but to give you an indication of something that you already know: We are living longer. The hope is that we are not only living longer, but that we are living better and more quality lives as well. The paradigm shift is that we must now plan to be living into our 90s, unless some indication of poor health suggests otherwise.

Hopefully, the good news is that we are living longer and are leading better lives at later ages, allowing us to maximize the joy of the retirement journey. However, if you make bad assumptions while putting in place your Retirement

Roadmap and these assumptions are compounded over a 30- or 35-year period, then your plan is not going to be worth the paper it is written on.

One of the biggest mistakes that I find people make when dealing with the issue of longevity is that the assumptions they use with the boilerplate plans available on the Internet or through some of their brokers are not reflective of reality. The problem here is that when you compound out bad assumptions over a long period of time, the foundation for the plan that you have is poor at best. Many times people input these initial assumptions but never revisit them in subsequent years to make necessary adjustments to the plan. The result of this is that the plan no longer reflects market reality, the economy or one's own life.

Again, the good news is that we could potentially live longer, but we cannot use today's assumptions and expect that they will remain the same five, 10 or 25 years from now. So those who are going to put together their own Retirement Roadmap must remember to make proper assumptions and to make no less than annual evaluations of whether or not they are still on the right track for their retirement.

Not Planning for Inflation

One of the big mistakes I find people make is assuming that whatever is happening today should be used as their assumption for the next X years to come. One of those variables that is used within planning modules is inflation.

Historically, inflation has run at about a 4 to 4.5% rate per year. However, the recent inflation numbers, if you believe them, are near the 2 to 2.5% rate. So if you are going to put in place assumptions for your retirement, and you use today's inflation rate and then have that compounded for the duration of the plan, your plan will blow up.

When I run Retirement Roadmaps for clients, I input the historical inflation rate. This creates a margin of error that I am comfortable with. I would much rather have more money than less. If I put in an inflation rate that is higher than the current rate and make the adjustments annually looking forward, then I build a more conservative plan for my client.

Let me share with you an example of the type of poor planning that this could cause when inputting and compounding the wrong inflation rate.

Let's say, for example, the initial plan indicates that the client needs $100,000 annually in order to accomplish their retirement objectives. If we put in place a 2.5% inflation rate and compound that over the next 25 years, the $100,000 need becomes a $185,000 need in 25 years. If, however, we put in a 4% inflation rate and compound that over the same timeframe, that need grows to $266,000 per year.

There is a substantial difference in planning for those two future numbers. I would rather solve for the $266,000 need in 25 years, and potentially be short of that goal if necessary, versus solving for the $185,000 need and being short of *that* goal.

One of my passions is golf, and I have heard many times that an amateur golfer will assume he or she will hit the perfect shot with a fairway iron. This assumption is usually incorrect; we do not hit the perfect shot and therefore usually fall short of the intended target. This thought process, I find, is the same for those who plan for retirement.

They assume that everything will work perfectly and put in place a plan that has no margin for error. The golfer should take one extra club and the planner should be putting in assumptions that are just a little higher, or bring margin for error into the plan.

Taking Out Too Much Money

Another common mistake I have found that people make, and this applies to both do-it-yourselfers and too many of my peers in this industry, is to take out too much income from their investment portfolios.

Several years ago, I was talking to a prospective client who mentioned that he had just had a plan done through a well-known Boston firm. He explained that he gave the adviser all of his information, needs, objectives and goals in an effort to generate a plan that was reflective of an investment portfolio for his upcoming retirement.

This prospective client was thrilled that he was going to be able to accomplish his retirement objectives because the plan indicated that he would get a 7% income from the portfolio, enough to lead his desired lifestyle. *This* plan was not reflective of what we would call prudent planning.

Current studies indicate that a withdrawal rate of approximately 4% is the maximum amount one should take from the portfolio if one's goal is not only to create an income stream but also to preserve the asset base. So when this individual stated he was going to take 7% income from the portfolio, what he did not realize was there was going to be a trade-off — his income would last for a period of time and he would then run out of money.

One of the mistakes I find when talking with people is that they confuse the concept of taking income with the concept of a stock or mutual fund generating a dividend for its shareholders. So let me take a moment to share with you how to properly think about how to take income from a portfolio.

Investment vehicles, like stocks, bonds or mutual funds, can have what is called a "total return." This return is made up of income, oftentimes the yield or dividend produced plus any capital appreciation that may be earned by the particular investment. For this discussion, I will keep it simple and not worry about whether the account is taxable or nontaxable.

Traditionally, when individuals think of income, they think of the dividend or the yield that is generated by the investment. For planning purposes, we often think of income in a little bit of a different way.

So let's move up to 30,000 feet and take a look at a hypothetical planning scenario. We will assume that the client needs $100,000 of income to accomplish her retirement goals, and she has pension and Social Security income of $70,000 per year. This leaves her $30,000 short, meaning that the investment portfolio needs to throw off $30,000 worth of income. We will assume for this purpose that there is $1 million in the investment portfolio; therefore, this portfolio needs to distribute 3% of the assets in order to accomplish the desired goal.

From a planning perspective, I do not care whether the 3% comes from dividends or capital appreciation. Our goal is to generate $30,000, and it is not a concern (again, ignoring taxes) how it is generated.

Assuming the client needs to generate 3% income and that we are having to overcome a 4% inflation rate looking forward, the portfolio needs to have a total return, for planning purposes, of 7%. If the portfolio can generate a 7% long-term total return, we will be able to generate the 3% income now and also account for the impact of inflation, annually, looking forward. (I am not suggesting here that a 7% total return should be expected or is historically accurate; I am just using it hypothetically to show how to think about total return and how to withdraw money from one's investments.)

Not Working with a Specialist

We are blessed, in the Boston area, to have some of the best medical care available in the nation. Along with having some of the best care, we have some of the best and most noted experts to help us out when it comes to specific ailments. So when I have a problem with my shoulder as a result of playing many years of tennis, I seek out a medical professional who has dealt with not only shoulder issues, but shoulder issues specific to those who have played sports.

I could go to a general practitioner who has years of experience in the medical profession and is well-versed in all of the latest remedies. He may be someone who is well respected and highly regarded, but is not an expert when it comes to shoulder issues for those who played tennis. This does not mean that he is not good at his craft; it just means that this professional is not the proper professional for my specific needs.

This analogy holds true when seeking out a professional to help guide you through your retirement planning. (In Chapter 5, we will explore in much more detail what to look for when looking for a specialist. My objective here is to open your eyes so that you are aware that there are actually retirement planning specialists.)

A study was done several years ago by a well-named mutual fund company. The objective was to find out how individuals sought advice for their planning needs and how they made decisions during their working years. As part of the study, the individuals surveyed were asked questions about planning for retirement and how their behavior may have changed, along with their decisions about their financial advisers, as they got closer to the actual date of retirement.

The conclusion of this study was that during their working years the average couple engages 2½ financial advisers. These advisers could be defined as brokers, life insurance agents or anyone else offering financial advice. However, as the couple approached retirement, they felt the need to get advice from just one “go to” financial advisor who specialized in the retirement process.

It is important from a consumer’s perspective to understand how financial advisors are trained and educated. There are many different types of advisors, some of whom are generalists and others are specialists. To understand this better, I share with you my road over the past 25 years of gaining the knowledge, education and training that I needed along the path to becoming a retirement planning specialist.

For many who enter our industry, it is important to find an organization that will provide broad training and a track to run on in an effort to help us gain the experience and expertise needed to deal with the public. My very first experience in the financial planning industry was through Mutual of New York life insurance. Twenty-five years ago, the life insurance industry taught the very basics of financial planning and how to market your services and go get business.

The time I spent with Mutual of New York was worthwhile because it gave me an understanding of financial planning 101. For that I will be forever grateful. But as Harry Chapin once wrote about a little town in upstate New York, he "felt he spent a week there one day." I sort of felt the same way about my time in the life insurance industry. There were certainly some benefits to learning the grassroots of financial planning, but I did not see selling life insurance as the way I wished to further my career as a financial planner.

I then decided to move out on my own, and share office space with three other financial planners. The decision to go out on my own right out of the gate was both the best and the worst career decision that I have made. For without a track to run on, without guidance from an organization, I was left all on my own to learn all of the complexities, not only of the financial planning profession, but also of building a business as a sole proprietor. These were the toughest times, yet as a result of this career path decision, they certainly helped me become what I am today.

Starting out on my own, I learned how to become a financial planning generalist. I became knowledgeable in the many aspects of financial planning, including life insurance, investments, taxes, estate planning and much more. About seven years after I made the decision to go out on my own, I stepped back one day to evaluate where I was and where I would like to go. What I realized was that the number one concern of many of my clients was the issue of retirement, and that I had developed some of the insight necessary to start my way toward becoming a retirement planning specialist.

Many of my peers stayed the course as either life insurance agents or financial planning specialists, and have done very well for themselves. I am glad that I have taken the road to becoming a retirement planning specialist, because it has been very rewarding, both personally and professionally, to work with the clients of my firm for over 20 years.

I share the story of the journey of my professional development because I think it is important to recognize that there are many good professionals out there. As you decide to work with a financial professional, you will need to determine what the best fit is for you and your family (more on this in Chapter 5).

As a retirement specialist, one of the most frequently asked questions by those about to retire is "When I retire, how will I get the income I will need?"

There are two distinct phases of financial planning. The first is the accumulation stage. Typically, during your working years, your goal is to accumulate the largest retirement nest egg possible so that you may have the opportunity to retire with the lifestyle you desire. However, when you start to transition into retirement, you now enter the distribution stage. This stage focuses on positioning the portfolio so that you can generate the income you need in the most tax-efficient manner for retirement now, and later.

In addition to this change of perspective, the conversations change as well. During the accumulation stage, the primary focus is on putting as much money away as possible so you can achieve the highest value possible. The topic of money management is often the primary focus of the conversations with your broker. Once you start to move into the distribution stage, the issue of money management becomes only one of many important topics to be discussed with your retirement planner. It is the ability to coordinate and sync up all of the various issues, including but not limited to income generation, estate planning, tax efficiencies, preservation of assets, and money management, that make the distribution stage a more focused and complex area within the world of financial planning.

So I believe that as important as it was for me to find a shoulder specialist in order to get the right treatment, it is important for you to align yourself with a specialist who can deal with your particular financial issues.

Beneficiary Forms

Several years ago, I was talking to a prospective client who was about to retire from GE. Joe walked into my office with all of the paperwork we had asked him to bring in for the interview. We proceeded to review his goals and objectives for his upcoming retirement. About 30 minutes into the interview, I told Joe that even if I could get him the returns he was looking for, his entire retirement plan was going to go up in smoke.

You can find a beneficiary review worksheet on our website (see introduction for details).

One of his goals was to leave his retirement nest egg to his two children. However, as I reviewed the documents, I noticed that the beneficiary of his 401(k) plan was his ex-wife. The divorce had occurred over 25 years ago, yet Joe never went back and updated the beneficiary form. I see this mistake often, and it is a fundamental reason why so many plans are going to fail.

I cannot tell you how many times I have seen a name that should not be on the beneficiary form, either because Aunt Molly passed away 12 years ago or because there was a divorce. Regardless of the cause, the objectives for the planning are no longer properly reflected in the documents necessary to distribute the assets. *I believe incorrect beneficiary forms are one of the biggest reasons individuals will not accomplish their overall retirement goals.*

Oftentimes you don't even know what you don't know. In this case, not understanding the impact of an incorrect beneficiary designation form will be the downfall from a planning perspective. Up-to-date and accurate beneficiary designation forms will help you avoid this mistake, as well as put in place the potential of maximizing the value of an IRA through what is called a Stretch IRA designation.

The IRS allows you to distribute income to your surviving spouse and the next two generations. When done properly, there is the potential of turning a $100,000 IRA into a $1 million stream of income to your heirs. But without designating the proper beneficiaries, you will not be able to utilize the Stretch IRA concept once you are gone.

By properly coordinating your investment strategies with your estate planning desires, the Stretch IRA can become one of the most powerful tools when instituting your Retirement Roadmap.

IRA Rollover Mistakes

In my 25 years of experience, one of the planning areas where I have seen many mistakes made, and many of them very costly, is with the rollover of an IRA. Here is just one example of how costly a mistake could be if the planning is done incorrectly.

Non-spousal IRA rollovers, defined as rollovers to one who is not a spouse, have become a main source of confusion for both individuals and some of their financial advisors. Several years ago, a prospective client came to me after having received advice from a local bank's financial planning division. Fortunately for this person, she did not completely trust the information that she had just received and decided to come to me for a second opinion. This second opinion ended up saving her almost $250,000.

The situation involved an IRA she had inherited from her father, who had recently passed away. The IRA was worth almost $600,000, and she was the sole beneficiary of the account. The advice that she had received from the bank's advisor was to set up a rollover IRA account in her name, and have a check from the old account be sent directly to her so that she could bring the check into the bank to deposit in the new IRA.

There were two glaring mistakes that the bank's advisor had made. First, a non-spousal rollover can only be transacted with a trustee-to-trustee transfer. If this individual had actually executed the request for the "check," the transaction would have instantly and irreconcilably been deemed a full distribution from the IRA and therefore fully taxable. The only way to make a "transfer" for a non-spousal IRA rollover is with a trustee-to-trustee transfer, which by definition means no "check" is needed. It is actually just a wire transfer from one account to the other.

The second error made by the bank advisor was that she was instructed to open her own IRA rollover account. It is important when doing rollovers to title the account properly, and in this instance the new account had to be designated as a beneficiary or BDA rollover. Without the proper designation, the rollover, by IRS regulations, is not correct and could be subject to substantial taxes.

Another error that is made with non-spousal rollovers is the lack of understanding that the beneficiary, in this case the recipient of the IRA, must initiate required distributions according to the IRS actuarial tables (or exhaust the balance within 5 years). To make matters more confusing, the level of distributions will be different depending upon the decedent's age at passing and whether he/she had already begun to take out their required minimum distributions.

The lesson here is that you should be double-checking the advice you receive regarding rollovers with a specialist. A mistake in planning could potentially cost you a lot of money.

Having Too Many Accounts

Throughout life's journey, we tend to accumulate things, and this holds true when it comes to accumulating money. I had a client recently who came in with no fewer than 15 different accounts. He had joint accounts in three different banks, taxable investment accounts with two different investment companies, annuities with three different insurance companies, and three different IRAs with two different financial advisors.

There are several issues, from a planning perspective, with having too many accounts. The first issue is that there are so many statements with so much paperwork coming in so frequently that, more often than not, you never truly know what exactly it is that you own. With so much paperwork, many people actually feel out of control. They sort of bury their heads in the sand and hope it will all magically get done.

The second issue is if you don't really know everything that you own, how can you properly put together an investment portfolio that is well diversified? When we started to compile and coordinate all of the different accounts, the client kept coming up with more paperwork for more accounts, revealing more and more funds that they owned and had not accounted for originally. It was almost impossible to put together a coordinated and well-balanced investment portfolio.

The third issue is tax efficiency. If you cannot get a handle on exactly how the income is coming in, because you don't know all of the accounts that you have, how do you take control of the "income faucet?" Once you enter into retirement, not only do you need to generate income but you need to generate it tax-efficiently. The "income faucet" refers to the ability to turn on and off the income when you need it. If you are unaware of all of the accounts you own, and the only accounting for the income is when you bring all of the paperwork to your accountant, then you are probably paying more taxes than you should.

A fourth issue is if the paperwork is too overwhelming and you do not look at correspondence in a timely fashion, you are probably unaware of updates to portfolios, money manager updates and new product enhancements that could potentially help you accomplish your retirement goals.

Finally, when you get to the age when you are required to take minimum distributions from your IRAs, yet you are not sure where all of the IRAs are, then you may be subjecting yourself to one of the IRS's heftiest penalties. The penalty for not taking out enough when you are beyond the age of 70½ is 50% of the amount that should have been taken out. Each custodian of your IRA is mandated to send you correspondence indicating how much money should be distributed from the IRA account each year. If you have six or eight different IRA accounts, you are going to be getting six or eight custodial letters every single year. Why not consolidate this so you don't get more than two or three of these letters, removing some of the confusion with regard to required minimum distributions?

I believe in the KISS theory, whereby simpler is better. By consolidating accounts where possible, you gain more control over the investments and the information flow, which should help you gain more control with your retirement planning.

The Transition Into Retirement

From a planning perspective, I think it is important to address what you will be doing in retirement. We have talked so far about what your money will be doing when you retire; however, one of the biggest mistakes I find people make is not thinking through what their retirement will look like.

We go to work for many different reasons. It is not just the paycheck. Work provides us with a reason to get up in the morning, a place to go, interaction with other people, a sense of achievement or purpose, and much more. So when you leave the workforce, you will be leaving many of your friends and a big part of what had defined you for many years. It is crucial to the success of your journey into retirement that you step back, before you retire, to understand what your retirement will look like.

Oftentimes when we talk to a husband about his retirement, his wife will go off and gain employment (if she was not already employed) because she really doesn't want to see him for those extra 40 to 50 hours every workweek. Sit down with your spouse and/or family and have a long conversation about what you wish to accomplish once you leave the workforce. What passions do you have? What hobbies will you explore? Are there grandkids that you will be babysitting for (this happens to be the favorite hobby of one of my clients)?

You should take on this task at least one year before you expect to retire. Obviously, if you have been retired involuntarily, you will be unable to undergo this task before retirement; however, it is still important to properly plan retirement just as you would have if you had the option to retire voluntarily.

The retirement journey is driven by many factors, not the least of which is the economics. However, many of my clients define a successful retirement with the following statement: "I don't know how I had enough time to work before!" They are so busy during the working years that the successful retirement is defined by what they are doing, not what their money is doing for them. Certainly these two will go hand-in-hand when defining a successful retirement, and you must spend the proper time doing the necessary planning.

Not Understanding Time Frames

The journey towards retirement can be very complex. One issue I find many people don't understand is the issue of time frames. I mentioned previously in this chapter the individual who was going to retire from Wang.

Clearly, he did not understand planning for the proper time frame; if he had, he would not have taken the risk associated with having 100% of his retirement savings in company stock so close to the date of retirement (hopefully this is a mistake you will never make, regardless of the organization you are working for). When you get closer to retirement, it is important to understand how to benchmark your retirement goals (also discussed earlier in this chapter).

Typically, we find people take a serious look at retirement when they are about five to seven years away from their perceived retirement date. Once they set up their Retirement Roadmap, they will understand what their benchmark numbers are and, therefore, what to do with their investments. The closer you get to your retirement date, if you have accomplished your benchmark number, the more important it is that you go into a conservative investment mode rather than maintaining a growth mode. If the market drops significantly and you don't have enough time to make up for it, you may never be able to accomplish your retirement benchmark number again if you are too close to your retirement date.

I am not suggesting that when you retire, the management of your money should retire. You should be aligning the management of your money with your retirement goals, which will be discussed in a future chapter. I am suggesting, however, that you should be aware of where you are on the journey to retirement and making the appropriate investment decisions as a result.

This is no different than if you were looking at your investment portfolio as it related to your children and funding their college educations. When those kids get closer to the age of 18, the management approach of the college monies should be getting more and more conservative. If your kids are three and five, you can afford to take on significant risk because you have significant time ahead of you to make up for market declines. The philosophy is the same when it comes to your retirement planning.

Without a Retirement Roadmap and without proper benchmarking, you will never be able to get a handle on when to move the switch from growth to conservative within your portfolio, nor understand how well that money is being managed against your retirement goals. The roadmap becomes a crucial part of the planning for your retirement, and without it, mystery will continue to shroud many of your investment decisions.

Investment Mistakes

The Definition of Insanity

The definition of insanity is doing the same thing over and over again and expecting different results. In my 25 years of business, I have spoken to many people who fall into this category. More often than not, the scenario plays out like this: the markets go up, and you put more money into them. The markets go down, and you panic and take money out. And somehow when the market goes up again, you put more money into them, repeating the scenario over and over again and never truly learning from the previous mistakes.

> **INVESTMENT MISTAKES**
>
> - Having All Your Eggs in One Basket
> - Asset Allocation
> - Not Rebalancing
> - Not Diversifying Properly
> - Not Understanding Risk

The markets that we are experiencing right now are different than markets we experienced in the ’80s and ’90s, and if there is not an understanding of what the difference is, you will continue to make the same mistakes over and over again.

It is important to understand that when I reference “markets,” I am referring to long-term trends. For the purpose of this discussion, I am not concerned about the daily, weekly or even annual returns of the market. Unfortunately, when individual investors and/or brokers are reviewing market performance, they do tend to look at it with a sort of a tunnel vision, unable to see the big picture from 30,000 feet.

During the ’80s and ’90s the long-term trend, which ended up being one of the greatest bull markets in history, was that the markets could sustain upward momentum. However, since 2000, we have been unable to sustain upward movement and have been in a flat market for the past 10 years. If you are looking at your quarterly statements and using those statements and/or the most recent headlines or news events to determine your next move with your investments, then you are bound to continue to make mistakes.

It is interesting to note the differences in expectations of individual investors during these two different time frames. I vividly recall a conversation I had with a prospective client in the late 1980s when this individual came in expecting returns over the following 10 years of somewhere between 18% and 20% per year. My response to him at the time was that I thought his expectation levels were too high and he was going to be taking on too much risk, and I was unwilling to take on the task of helping him manage his money if those were his expectations.

In stark contrast to that conversation is the conversations I have on an ongoing basis with individuals today. Expectations for the long term have dropped to numbers closer to 5% or 7%, and even those numbers seem at times to be unrealistically high. The reality is that the actual number is probably somewhere between each of these two conversations.

From 30,000 feet, it is clear that the long-term trends have changed, that they may continue to move in this direction for another few years to come, and your investment decisions need to be driven by this paradigm shift (I will detail this more in Chapter 2).

There are certainly no guarantees when it comes to investing, but without doing proper due diligence beforehand, your probability of achieving your investment goals could decline.

Having All Your Eggs in One Basket

This is a mistake driven by not only an error in judgment with your investments, but also a false sense of security if you work for one large organization. I see this happen often, and its effects can be disastrous.

I have already referenced the scenario with the Wang employee. He had worked at Wang his entire career, and his judgment with regard to investment decisions was clouded at best. He obviously felt that since he had worked at Wang for many years, “they” would take care of him when he retired. He had benefited greatly from the growth of the stock for many years and, as a loyal employee, was sure that this growth would continue. *This “blind faith” in one’s company can potentially be the single most costly mistake one could make heading into retirement.*

If you work, or worked, for Polaroid, Enron, General

Electric, Goldman Sachs, BP or any other large organization whose stock fell precipitously at just the wrong time, you clearly understand the risk. No matter how long you have worked for an organization and no matter how well you think you know the business model and how the stock performs, it is never a prudent choice to invest heavily in that one stock.

Recalling many conversations I have had with individuals who had up to 100% of their employer stock within their 401(k) program, it is interesting to hear people talk about their investment philosophy. Many times they will tell me that they are conservative when it comes to their investment philosophy, and it is important to understand what is meant when they say this.

"Conservative" here means that they are very familiar with, or feel very comfortable with, their own organization. They have been loyal employees and feel that no matter what happens, the company will take care of them.

When I question someone who has 100% of their investment portfolio in their employer's stock, I get a number of different responses. First, there is the response that indicates that they are well aware of the risk that they are taking but that the company's growth is still targeted to be outstanding for the next several years, and they don't want to miss out on that.

Next there is the individual who has been with an organization, such as General Electric, where the stock used to be at $60, dropped to $30 and then to $20, and that individual is waiting for the stock value to go back up to the previous valuations before they consider selling. This assumes the stock is going to go back up. Again, there was a "blind faith" that the stock was going to take care of them and certainly would be going up, not down.

Then there is the response from the soon-to-be retiree that they recognize they are overweight in the portfolio, completely dependent upon the value of that stock in order to accomplish their retirement goals, and would not have it any other way.

To these folks, I could get on the top of the mountain and declare that I have the cure for all that ails them, and still not be heard. There is little I can do to sway someone emotionally who has been employed as long as many have been with one company. No matter how intelligent these people are in other areas of life, they are putting themselves in harm's way, and I can only wish them well.

Unfortunately, for these folks who are hoping not to miss out on future gains, they do not realize that the potential losses could be much more detrimental to their retirement than any gain may benefit them.

For those who recognize the pitfalls of taking this type of investment risk, particularly as one approaches the five- to seven-year window before their retirement date, I can share with them how to properly diversify the portfolio, take on the appropriate risk, and sync up their investment philosophy with their retirement goals.

Recently, I was talking with someone who was five years from his retirement date. He works for one of the largest worldwide organizations, has been there for 35 years, and is anxiously looking to retire comfortably. He, like many of his peers, had upwards of 95% of his investments in his 401(k) plan in his corporate stock.

When we first took on the task of putting together his

Retirement Roadmap, I mentioned to him that one of the issues we were going to have to deal with was his current investment strategy. He knew exactly where I was going with this comment and made it clear that at that moment he was not willing to discuss the possibility of diversifying his holdings.

Once we completed his Retirement Roadmap and there was an understanding that he could accomplish his retirement goals, even with modest returns, we decided to revisit the conversation about investments. Since we had taken a different path to understanding how to retire, he was more aware of what he needed to do to retire comfortably. In his case, he was fortunate enough to have already accumulated enough money to successfully retire.

Now that we had established he had achieved his "benchmark" number for his desired retirement and that it was no longer necessary to achieve "outstanding" returns, he was willing to revisit the overall allocation within his 401(k) plan. By taking a different perspective and doing the Retirement Roadmap first, before we took a look at how to diversify his portfolio, he was more empowered and knowledgeable about both the upside and downside of the journey into retirement.

This goes back to synchronizing your investment portfolio with your retirement goals. During our working years, we are looking to accumulate as much money as possible, yet no one has told us when, or how, to make the necessary change once we have accomplished our goals. And that is assuming that you actually have goals. *Learn the lessons of history. Don't let how you feel about your tenure at your organization drive you to make poor investment decisions that could potentially derail a successful retirement.*

When I did retirement planning seminars, I would ask the audience the following question: “What is the most important characteristic of putting together an investment portfolio?” The answer, invariably, was that the most important consideration from the audience’s perspective was the selection of the “best” investment or fund manager. This was typically the answer from the do-it-yourselfers in the room, as well as those who were using financial planners.

The do-it-yourselfers would spend significant amounts of time researching specific investments and selecting these investments based on their research. Those who used financial planners were also convinced that the selection process of investment managers was the most important characteristic, because that was the embodiment of the majority of the conversations they had with their financial advisors.

To reinforce our perception of how important it is to select the best managers or investment vehicles, television shows, talking heads on radio shows and prominent magazines would annually, if not more frequently, list their top 50 picks. Interestingly, many of these picks rarely made it to the next set of top picks, which meant that the resource that you were using was asking you to churn your portfolio no less than every year. From a planning perspective, this is never prudent advice.

There was a study done many years ago, authored by Harry Markowitz. Markowitz was honored with a Nobel Prize in economics in 1990. He had been studying markets since the late 1940s in a search for what was the most important factor for the growth of a portfolio. This study has become the landmark study for our industry and how we look at portfolio construction.

Markowitz's study looked at several contributing factors to a portfolio's total return, including the impact of timing, investment selection, taxes/fees and asset allocation. The conclusion from this study was that over 90% of the success of an investment portfolio was driven by asset allocation.

Let me repeat that asset allocation contributed, according to Markowitz, to over 90% of the success of markets over many years. Timing, selection of individual managers or investment vehicles, and taxes/fees contributed to less than 10% of the overall total return of the portfolio. Obviously, this is contrary to the perceptions of individual investors and many of my peers in the industry.

The decision-making process about asset allocation during long-term secular bear markets, markets that have basically no return from the beginning of the cycles to the end of the cycles, like the one we are in now, is different than asset allocation decisions we would make during long bull markets like the ones we saw in the '80s and '90s.

Suffice it to say that the investment community and many of my peers need to be reeducated about what is the most important component with regard to putting in place a proper investment portfolio. *It is much more important to put in place the proper asset allocation than it is to have the "best" investment vehicle.*

Not Rebalancing

Can you think back far enough and remember the late 1990s from an investment perspective? The technology sector was going crazy; we kept hearing of this "new normal" where it was more important, it seemed, to lose money than it was to show earnings. Many of the big-name tech stocks were skyrocketing in value with seemingly no end in sight.

The mistake made was not so much believing in this fairytale as it was not getting back to investment basics. Within your portfolio in the early '90s, you may have started out with growth or technology funds that represented maybe 25% to 35% of your portfolio. By the end of the 1990s, the monies in this sector, due to extraordinary growth, had risen to 60%, 70% or even 80% of your portfolio.

In essence, we fell in love with the technology sector and forgot about the investment basics which indicated that at some point you needed to rebalance. The investment portfolios that you had were so out of balance as a result of the extraordinary growth of the technology sector that you put yourself in harm's way. The assumption here is that we actually had an investment policy statement to go by.

An investment policy statement (IPS) would outline an appropriate balancing process for the portfolio. This is important because, as sectors rise and fall, you need to buy or sell various sectors to bring the overall portfolio back to proper balance. At some point, as the technology/growth sectors started to represent over 50% of your portfolio, a systematic approach to selling would have been indicated by the IPS. If you had the proper parameters and the discipline to make the necessary changes as you became out of balance over time, you would have saved yourself and your portfolio the degree of loss many suffered. Certainly, there are no guarantees for any future or past performance.

In secular bear markets, such as the one we are experiencing right now, it is more important than ever to have a proper IPS in place. *Due to the volatility of these markets, it is imperative to have the guidelines necessary to know how your investments should be situated, and how to make the necessary adjustments when the markets change swiftly, which is what we are experiencing currently.*

It is not unusual, as I talk with people, to hear them tell of their mistakes of buying high and selling low. They usually chuckle when they think of how they go about the investment process. The interesting thing is that if you had systematic changes programmed into your investment portfolio, the process of buying high and selling low could be avoided because you would be taking the emotions, or panic, out of your investment decisions.

It is important not to fall in love with your investments. Do the research necessary to bring in place the proper asset allocation and weightings necessary to accomplish your retirement objectives, and then go out and find very good managers who fit into your investment approach.

Not Diversifying Properly

It is not uncommon, when a prospective client comes into my office and shares with me what they own within their portfolios, to see a very common mistake: he or she owns too many funds doing the same thing. Typically when I point this out, I am told by this individual that he or she really is very well diversified. I point out to him or her that even if you had CDs in eight different banks, you would not be bringing more diversification in; you would just have eight different CDs.

There are somewhere between 15,000 and 20,000 mutual funds available. There are many different sectors that are offered through the mutual funds, and hundreds of different funds offering the same type of investment style within each category. So when a prospective client comes in and is proud of the fact that he or she has a well-balanced portfolio with 15 mutual funds in it, he or she may be a bit taken aback if he or she was to find out that of the 15 mutual funds, 10 of them were investing in the same space.

It is not always possible, just by looking at the label of the mutual fund, to actually find out what it is they own. Sometimes you really have to dig into the prospectus or the available research to find out what the managers can, and do, invest in. If you have 10 different large-cap growth domestic mutual funds, then you do not have the type of diversification and balance that you may have expected originally.

Again, it is sort of like having CDs in eight different banks. Not all of them will be doing exactly the same thing as the others, yet they will typically be drawing from the same basket of stocks or bonds, and the holdings for the funds would have tremendous overlap.

The goal, therefore, is not to own a lot of funds or stocks; rather, own the correct amount of investment vehicles that coordinate well with each other in order to be balanced properly.

Not Understanding Risk

Let us take a moment to address the definition of risk. When I conduct speaking engagements and ask the audience about its definition of risk, typically the answer comes back that risk is about the potential of losing money. And most people would prefer not to lose money; therefore, they make decisions not to take on "risk."

So let us redefine for you what risk is relative to your retirement planning and your investment portfolio. If you take on more risk than you should, you run the "risk" of losing more money than you should. This is the scenario with my client who had $1 million, took on more risk than she should have, given how close she was to retirement, and ended up losing "too much money." However, it is also possible not to take on "enough risk." What do I mean by that?

If your Retirement Roadmap indicates that you need to generate income from your portfolio in order to meet your retirement goals, then you need to take on "enough risk" to generate that income. For example, if you had a $1 million portfolio and needed to generate $40,000 per year from it, but your $1 million portfolio was invested in eight different CDs with a combined yield of 2%, then you would not be generating enough income from the portfolio. The reality in this scenario would be that you would very soon start to dip into principal because you were not generating enough income. And we do not want to dip into principal.

The key to understanding how much "risk" you should be taking on will be driven by the work you do with your Retirement Roadmap. The more income you will need from the portfolio, the more risk you will need to take. If you do not need, now or for the foreseeable future, income from the portfolio, then you can afford to take on very little risk with your money.

Risk is not about losing money. Risk is about understanding how your portfolio needs to be positioned so that you don't run out of money. And if you take "no risk" with your money, depending upon your circumstances and needs in retirement, the real risk you take is running out of money. The big mistake people make when putting together investment portfolios for retirement is not taking on the “proper risk” to meet their retirement needs. This is driven more by the planning than it is by the investment selection.

Without the Retirement Roadmap, you will not truly understand how much “risk” you should be taking.