FROM WEALTH ACCUMULATION TO WEALTH PRESERVATION

A retirement transition might call for a shift in your investment approach.

Provided By: Brad Connors, Certified Wealth Strategist®

Time passes … and priorities change. When you approach retirement, your investment mindset may have to be modified. If you are in your thirties or forties, the goal is accumulation – investing and saving to amass as much as possible for your retirement years. When you are older, the goal changes to wealth preservation – the objective of making assets last through a combination of conservative investing, sensible cash flow, risk management and tax reduction.

A subtle shift. Committed investors who work with a financial representative often receive guidance to help them adjust their investment approach to new phases of life.

If you're younger than 40, you will almost always be encouraged to invest for growth for two reasons. One, you probably have a very long time horizon until retirement (maybe as long as 40 years). Two, numerous studies have shown that the stock market has historically outperformed (in the long term) fixed-rate investments and savings accounts. Also, as your earnings increase, you can potentially defer greater and greater amounts of salary for retirement savings.

When people are in their forties, they usually begin to approach their maximum earnings potential. This is when many portfolios start to shift toward a mix of growth-oriented and preservation-oriented investments. For many people, this shift toward asset preservation gets more pronounced the older they get – though some growth investments usually remain in their portfolios, because their retirement capital may have to last for another 30 or 40 years.

In retirement, a financial representative has to find an asset allocation that will encourage a regular income stream for you without discouraging your potential for growth. It must also be an allocation that you are comfortable with.

Still accumulating? Perhaps you started saving for retirement relatively late, or maybe you had a financial setback or two. This is not unusual: many people in their fifties or sixties are still in the accumulation phase out of necessity.

There are people in their forties or fifties who have no retirement savings. Many are predisposed to "make up for lost time" and adopt an aggressive investment strategy. This can be dangerous. People may be tempted to invest the bulk of their assets in a "hot" sector of the market, crossing their fingers and hoping for double-digit returns. But as we have seen with the real estate market, what seems "hot" may turn cold. Diversification is just as important for late savers.

The psychology of preservation. "Wealth preservation" is a broad term that can signify a number of financial steps. A good wealth preservation strategy addresses the things that have to be addressed for any mature couple or individual or maturing family.

It should outline how retirement plan savings will be reinvested and managed (asset allocation, investment objectives). It should establish a schedule of sensible income withdrawals. It should provide measures for tax efficiency (in investing) and tax reduction, to potentially increase the after-tax return. It should incorporate an estate plan, to permit the tax-efficient transfer of assets to heirs and/or favorite causes.

It should NOT expose an individual, couple, or family to dangerous levels of risk with the mission of obsessively pursuing the best possible stock market returns.

Is preserving wealth on your mind? If not, it may need to be – particularly if you are in your forties, fifties or older. Now might be the right time to confer with a qualified financial representative and discuss a shift in emphasis from wealth accumulation to wealth preservation.

Brad Connors is a Representative with iWealth and may be reached at 507-835-9111, info@iWealth4me.com or www.iWealth4me.com.