Investing for Retirement

Five Common Mistakes and How to Avoid Them

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How can I make sure I have enough money to live in comfort for the rest of my life? That's the critical issue that retirees and those planning for retirement must face.

Sure, you've got your Social Security and possibly a pension. But you know that's not enough. Yet you're not sure how to grow and protect the nest egg you have accumulated over the years so that it becomes an important source of regular income.

The investment dilemmas are endless. Should I get out of stocks and put everything in bonds? Are tax-free investments a good idea? What's the right mix of investments for my situation?

Stop. Take a breath. After 35 plus years in the financial services industry, I have identified three essential steps that will help you traverse the potentially rocky road to a secure retirement.

STEP I: Understand Your Monetary Objectives

"Having enough money" may seem like a clear-cut goal. But what does that mean? In my experience, virtually everyone approaching retirement has three monetary objectives. You will want to find a way to 1) preserve your principal or nest egg; 2) build a portfolio that will, in conjunction with your other assets, provide an adequate and predictable monthly income; and 3) ensure that you don't outlive your money.

STEP II: Avoid the Five Common Investment Mistakes

The second step is like the admonition in the physician's oath: *First, do no harm.* You want to avoid the major mistakes that retirement-minded investors typically make.

The High Cost of a Free Lunch.

If you're over 50, you're a prime target for insurance brokers and financial planners eager to show you the best way to invest for retirement. Those free educational luncheons and dinners they invite you to may well be detrimental to your long-term financial health. The sponsors of these events are frequently more interested in enriching their own retirement than yours. Their agenda: Sell you the products they have, such as mutual funds and annuities, which are not necessarily the investment products that will benefit you most. You should look for an investment advisor who is completely independent and represents all investment options.

Ignoring Growth.

Some older investors are reluctant to put their money in stocks or other financial products that have the potential to erode their principal. Instead, they focus on bonds and other relatively safe investment vehicles that produce, as a group, moderate yields at best.

Retirement portfolios that don't include some carefully selected stocks or other growth investments — which are ideal hedges against inflation — might not serve you well over the life of your retirement. That's because inflation can eat up much of the income from bonds and other so-called safe investments, meaning you could end up with a total return lower than the inflation rate.

Although inflation has been relatively tame of late, don't forget the 1970s, when the average annual inflation rate was more than 11 percent, or even the 1980s, when the average annual rate approached 5 percent. By contrast, the current annual yield on a 10-year treasury bond is in the 4 percent range.

The Tax-Avoidance Trap.

Municipal and other tax-free bonds are the way to go! You've certainly heard this mantra before, especially among financial seminar sponsors who happen to be selling tax-free investment products. The fact is that tax-free bonds are usually a lucrative investment only for the very wealthy — those in the highest tax bracket (35 percent) with a significant portion of their income going to taxes.

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For the majority of retirees in lower tax brackets, taxable investments that generate returns somewhat higher than tax-free bonds can be more profitable. The reason: Even after taxes, you end up with more money.

Here's a simplified example: If you invested $100,000 in a tax-free municipal bond yielding 4 percent, your net income at the end of the year would be $4,000 since there would be no taxes to subtract. However, if you instead invested the $100,000 in a taxable investment that yielded a little more, say 6 percent, you would have earned $6,000 by the end of the year. Assuming you were in a 15 percent federal tax bracket, your tax on this investment would be $900 (or less depending on the specifics of your tax situation). After taxes, your net profit would be $5,100 or $1,100 more than you could have earned through a tax-free municipal bond. (State and local taxes on this investment should be minimal.)

Failure to Diversify.
Too many investors in or approaching retirement stick with one or very few investment strategies that they believe will produce solid results. As an experienced financial consultant, I can assure you that no single investment is ever a sure thing. No matter how good a stock or other investment seems to be, it could falter.

Consider a few well-documented examples besides Enron.

- In the Kansas City region, Sprint was considered the stock on which to build your future during the 1990s. A lot of people, including Sprint employees, invested heavily in the company. But Sprint's fortunes changed in the early 2000s, and the company's stock lost much of its value.

- Don't forget the technology bubble of the late 1990s. A lot of people plowed most or all of their investment capital into technology companies, believing the much-hyped promise that this was a quick, easy way to double and triple their money. The bubble burst in 2000, and many technology stock holders lost a huge portion of their investments.

The moral of these examples is that it is impossible for even the most skilled investor to consistently predict if or when an investment will fail. Diversification will allow you to spread your risk so that if one of your investments plummets, the income stream from your entire portfolio will not be drastically altered.

Lack of Liquidity.
Don't overinvest in illiquid investments, such as single premium life insurance, limited partnerships and annuities. If you do, you could experience a substantial financial loss if you need a lot of money on short notice for a major purchase or other expense. That's because attempting to quickly liquidate an illiquid investment usually results in a sizable monetary penalty or drop in value.

Step III: Get the Professional Guidance You Need

The best way to avoid these pitfalls — and to develop a realistic investment strategy for a secure retirement — is to seek the assistance of a money manager or other investment professional. Investing for retirement, like medical care, is not a do-it-yourself project. Consider this. The average investor — as well as many money managers and mutual funds — earns much less than the S&P 500 Index, a standard measure for the broad performance of the stock market.

By contrast, LBW has outperformed the S&P 500 by more than 39 percent over the last four years. With more than 125 years of combined professional investment experience, LBW money managers know how to build and manage a powerful retirement portfolio — one that will maximize your growth potential with a minimum of risk to your principal.

We also know that no investment product or strategy is right for everyone. At LBW, we assess your individual financial situation and create an investment plan based on your unique retirement needs and goals. And, unlike many brokers and planners who offer a limited inventory of high-profit (for them) products, we can secure virtually any investment product that will enhance your portfolio.

The cost of LBW's comprehensive money management: 1 percent or less of your portfolio's assets. That means your absolute costs increase only when your portfolio grows in value.

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