

Safe Money Advisory



Allocating Your Retirement Assets

Houston, Texas
For Immediate Release

If you'd like to know where to invest your retirement money, there are virtually thousands of asset allocation calculators that will tell you. Go to the web site on any mutual fund company or brokerage firm for the free use of their asset allocation program. You simply answer a few questions about risk preference, give your age and presto they'll tell you where to invest your retirement money. There's only one problem: the results you get are rigged to give answers that create sales for the host company and their brokers. Invariably the recommendations will be stocks and bonds -- no bank CDs, annuities or other non-brokerage options. I call this "broker-channel bias" because the advertising might of the large investment firms put other alternatives at a disadvantage. Far too many retirees are listening to the loudest voice when it comes to investment choices. My advice is to re-balance your mindset about retirement choices before you re-balance your retirement portfolio. Let me illustrate my point.

Here are the abbreviated questions asked to assess risk for a 65 year old. My answers are underlined.

1. If I inherited \$10,000, I'd want to invest it in the stock market: strongly disagree
2. I will accept the possibility of loss, if gains are likely: strongly disagree
3. If potential return is twice normal, I'd accept up to 50% loss: strongly disagree
4. I avoid investments that are risky or unpredictable: strongly agree
5. If my investment dropped 20% in 2 weeks, I'd sell and go elsewhere: strongly agree
6. I prefer growth and performance over low risk: strongly disagree
7. I would choose job security even if the salary were lower: strongly agree
8. I'll have sufficient money for a comfortable retirement: strongly disagree
9. I'm content waiting five years to recover market losses: strongly disagree
10. A stock market decline of 20% is a buying opportunity: strongly disagree



Not surprisingly I got the lowest risk tolerance score available. Here's how the investment allocation calculator said I should invest my retirement money.

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| 1. Corporate bonds | 52% |
| 2. U.S. large cap stocks | 22% |
| 3. U.S. small cap stocks | 11% |
| 4. Short term U.S. Treasury | 10% |
| 5. International stocks | 5% |

Let's say that I follow this advice and shortly thereafter the global economy goes into a tail spin, stock markets plummet and interest rates rocket upward. Can't happen you say, check the conditions of the late 70's and early 80's. How have my investments fared? U.S. Treasury obligations are short-term (meaning less than 5 years), but higher rates will cause their value to decrease: the longer to maturity, the bigger the loss (actual loss if I sell and opportunity loss if I continue to hold). Not too bad, but I've got losses. Higher rates would cause corporate bond values to drop, and the recession could also undermine the creditworthiness of the issuers. Double trouble brewing here! The stocks would all decline in value with the recession: the losses range from bad to catastrophic. Not to worry, it's only my retirement money. I could go back to work were it not for the recession... and my age. Can I handle the loss of 30% - 40% of my retirement money?

I've just learned that there is a world of difference in diversifying a portfolio to "*work toward retirement rather than making it through retirement*". The fact is that retirement stakeholders are making terrible mistakes with their investment choices, because institutional advisors are putting their "returns" before your "retirement safety". Rather than hedging investment risk using an asset allocation model, you might want to consider hedging against longevity risk (living too long) or the loss of a regular income. Some of the finest minds in the financial world say that the diversified portfolio approach used since the 1950's is in real need of updating. I agree completely and encourage you to be aware of broker-channel bias the next time your broker calls. One last thing: consider all the options before investing.

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