Wealth Rx
wealth and wellness tips to help you live better
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Wm WEALTH MANAGEMENT

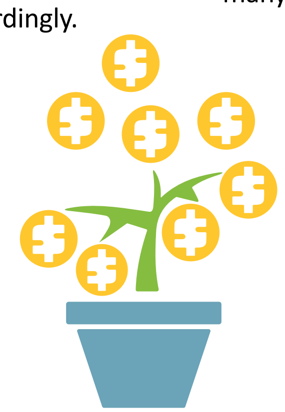
Asset allocation during retirement

It is easy to forget that investing continues after retirement. Asset allocation within retirement is essential to preventing loss from inflation and can ensure your finances will accommodate unexpected costs.

Investor timeline and diminishing risk

Half of portfolio management focuses on managing risk, the other half on market returns. Because an increase in risk can increase both potential return and potential loss, each investor must determine an appropriate level of risk for his or her portfolio. Investors must be comfortable with their risk level, while still being able to get the returns necessary to meet their goals. Using several different factors, financial advisors calculate this level of "risk tolerance" and help investors create a plan accordingly.

Young investors tend to have a higher risk tolerance. Their long timeline can allow them to recover from major losses in their portfolio. As they grow older, investors tend to lower their risk tolerance, giving up higher returns in favor of securing the money they already have. As retirement nears, investors continue to decrease their risk to the point where they can confidently plan around their portfolio's value.



Risk in retirement

A retiree's primary goal is to work towards ensuring his or her financial plan is "successful" and that they have enough assets to last the remainder of their life. Three major factors that can affect the success of a retirement account are:

- **Investor spending** – This refers to a retiree going over budget with their spending. This could be affected by necessary expenses (e.g., home repair, health costs) or through frivolous spending. It is not only important for retirees to have spending discipline but also to plan sufficient income for themselves.
- **Investor longevity** – It is hard to think of a long life as a source of stress, but for some investors, living beyond their expected years can cause significant financial concerns. Investors should assume the best and plan for a long, happy retirement.
- **Rise or fall in asset values** – Tied to asset allocation, this refers to the loss of a portfolio's value through market fluctuations or inflation. Investors with too many risky assets could have their retirement ruined by a single downturn. However, investors with completely safe assets might not be able to outpace inflation.

To prevent or reduce the effects of possible losses, new retirees are encouraged to reformat some of their investments. The challenge of asset allocation during retirement is creating an investment plan that has both stable growth and the ability to make regular distributions to owners. As with all investment plans, asset allocation is determined through a highly personalized strategy that should only be constructed under the guidance of a financial advisor.

Use of assets during retirement

In general, money and property held during retirement is either invested or used to meet current needs. Though many people would like to think of reaching retirement as the end of income and investment planning, the reality is

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Asset allocation during retirement

retirement can last longer than they expect. It is essential for retirees to plan for all scenarios and effectively invest their assets.

Advisors have developed two popular types of approaches to asset allocation during retirement. The classic model considers a single portfolio of mixed assets that a retiree occasionally accesses to replenish his or her savings account. This method is simple, but requires readjustment of assets with every major withdrawal.

The other method involves creating a hierarchy of three to five different sub-portfolios (sometimes referred to as "buckets.") While some assets (like pensions or annuities) are constant, most are categorized by risk and placed into an appropriate bucket. Investors establish the buckets at the start of their retirement and each one works to satisfy a specific goal:

- **Short-term cash**– This simple bucket is designed to cover the first 1-5 years of retirement. An investor puts money into savings accounts, money market funds and CDs.
- **Mid-term investments** – Usually heavily invested in bonds and other low risk assets that produce small growth but have little chance of losing value. This bucket covers the next 5 to 10 years of retirement. As the short-term cash bucket runs out, it is refilled by selling these mid-term investments.
- **Long-term investments** – Because this bucket often is left alone for 10-15 years, it has substantial time to grow. Some choose to continue investing this money as they did before retirement, with a moderate amount of risk. Growth from long-term investments can add significant value to a retirement fund. As a retiree gets closer to needing these assets, they are redistributed to the mid-term bucket to prevent any sudden loss in value.
- **Estate assets** – For estate planning purposes, retirees can delay using their most appreciated assets (e.g. high-growth stocks or real estate) until all other assets have been depleted. Appreciated assets receive a step-up in cost basis at the death of the owner. Though this increases the owner's taxable estate, it removes the capital gains tax up to that point. Passing appreciated assets to an inheritor essentially allows a person to use their estate tax exemption as a capital gains exemption.

While either method of planning for asset growth and use in retirement can be successful, no one system or portfolio will fit every retiree. Hybrid methods of asset allocation are common; each person must work with an advisor to tailor a plan that best suits his or her needs.

Retirement can be a wonderful time to relax and enjoy life, but it requires serious attention to avoid financial pitfalls. Asset allocation is a key part of planning for every stage of life.

the September market

at a glance

U.S. Large Cap	U.S. Mid/Small	Foreign Large	U.S. Bonds
(S&P 500)	(Russell 2000 Index)	(NYSE International 100)	(Barclays US Aggregate)
2,519.36	**1,490.86**	**5,643.00**	**2,038.46**
1.93%	**6.09%**	**2.25%**	**0.48%**

September 2017 market data

in action

- In one of the biggest data breaches of all time, Equifax, one of the three major credit reporting agencies in the United States, announced that more than 143 million individuals had their information compromised. The hack reportedly occurred from May through July of this year.
- The devastating hurricanes that impacted some of the Americas in August and September continue to impact millions of people. Estimates indicate that, between Hurricanes Irma and Harvey, total combined damage could exceed $400 billion.
- Controlling stake in the storied music publication company Rolling Stone has been made available by Wenner Media LLC. According to Kreisky Media Consultancy, the stake could go for as much as $80 million.
- Amazon is looking to expand its operations to a second headquarters office. Amazon estimates that, from 2010 through 2016, their main headquarters impacted Seattle's economy to the tune of roughly $38 billion. Amazon expects to announce their decision sometime in 2018.
- Nordstrom is set to implement a line of stores that will have no merchandise for sale. Starting in early October at locations in California, these "Nordstrom Local" stores will have items that can be tried on, but not purchased. Instead, inventory will be gathered from other stores and from its own website. These stores will also have juice and wine bars.
- In a promising sign for working-class families in the United States, middle-class income for Americans in 2016 rose to the highest it has ever been. In relation to this news, the poverty rate dropped to 12.7 percent, roughly returning to pre-Recession levels.

October

is National Breast Cancer Awareness Month

Approximately 237,000 women and 2,100 men in the U.S. are diagnosed with breast cancer each year. About 1 in 8 women born today in the U.S. will get breast cancer at some point.

The good news is that if detected and treated early most women can survive breast cancer. Current recommendations for mammograms are:

- Women age 40 to 49 — talk with your doctor about when to start getting mammograms and how often to get them
- Women age 50 to 74 — should get a mammogram every 2 years

Talk to your doctor about your breast cancer risk. If a close family member had breast or ovarian cancer your doctor can help you decide when and how often to get a mammogram.

A healthy lifestyle can help reduce your risk of breast cancer. Learn more at **cancer.org**

planadviser's 2016 TOP100 RETIREMENT PLAN ADVISERS

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The "PLANADVISER Top 100 Retirement Plan Advisers" list is compiled from responses to the PLANADVISER Retirement Plan Adviser Survey. The list is drawn solely from a set of quantitative variables and information in the survey supplied by the advisers themselves. H&H qualified under the small team category, which is an advisor with 10 or fewer team members, in 2016 and 2017. Go to **planadviser.com/Top100** for more information.

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