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Securing Your Future

With the uncertainty of today's financial world in mind, experts offer tips on how to innovatively weather the storm.
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Despite today's economic uncertainty and turbulent financial markets, Northeast Ohio financial professionals say there are innovative ways for investors to satisfy their need for security while positioning their portfolios for growth.

Given the difficulty in predicting market movements, savvy investors can safeguard against volatility by structuring their portfolios so they are prepared for multiple scenarios, says Jeffrey van Fossen, principal and senior investment advisor with Beachwood-based Inverness Investment Group. "For example," he says, "rather than trying to predict whether stocks are going to perform better than bonds, or international issues are going to perform better than domestic large-cap issues, portfolios should be designed to meet specific goals, no matter what the markets do."

While there's no certain way to bulletproof a growth-oriented portfolio against market losses, an asset allocation strategy is an important safeguard, explains van Fossen, a chartered financial analyst (CFA).

Diversification is key Noting that diversification is a necessary aspect of asset allocation, van Fossen says that dividing funds between different asset classes provides some protection against loss when one type of investment is underperforming. Because the values of different investments often move in opposite directions, investing in a range of securities reduces the risk that all assets will be decreasing in value at the same time.

In addition to deploying funds among stocks, bonds and cash, it's important to diversify within each of the separate classes. For example, the stock portion of your portfolio may include shares of blue-chip and growth issues. Your stock holdings could also include shares from different industries such as consumer goods, technology and manufacturing. The benefits of ETFs and TIPS

Inverness Investment Group primarily gears its services to individuals or families with upward of $1 million in assets. However, investors of all sizes can easily diversify their portfolios through the use of relatively new financial vehicles called Exchanged Traded Funds (ETFs).

ETFs combine the trading flexibility of individual stocks with the diversification benefits of mutual funds. ETFs are similar to mutual funds in that they hold a basket of stocks, giving investors a diversified portfolio with just one purchase. But unlike mutual funds, they are traded on financial exchanges, where you can buy and sell them throughout the day, like stocks.

The first ETFs tended to track broad market indexes, like the popular SPDR, which is pegged to the Standard & Poor's 500, and the NASDAQ Composite, which follows the benchmark of the same name. Nowadays, ETFs are becoming increasingly focused, offering access to specialized market niches, ranging from specific foreign countries, to futures prices, to stocks with low price-to-earning ratios.

Keep in mind that market prices for ETFs can fluctuate widely, depending on economic conditions, global events, investor sentiment and security-specific factors.

Investors who are concerned about inflation may want to check out Treasury Inflation-Protected Securities, or TIPS. The principal of a TIPS increases with inflation, as measured by the Consumer Price Index. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater.

TIPS pay interest twice a year, at a fixed rate. The rate is applied to the adjusted principal. Therefore, like the principal, interest payments rise with inflation.

Don't delay planning

Most financial professionals will tell you that the "how" of investing for retirement may not be as important as the "when." Young people who set aside even small amounts on a regular basis can accumulate a significant retirement fund, thanks to the wonders of compound interest.

Nevertheless, experts say that many Americans wait until they are in their 40s or 50s to start planning for their retirement years. As a consequence, less than 30 percent of Americans age 55 and over have total savings of more than $100,000 (excluding the value of their house), according to a survey by the Employee Benefit Research Institute. For those who will receive income from an employer-sponsored pension plan, $100,000 in savings might provide a comfortable retirement. But without pension income, $100,000 won't go far, even with Social Security benefits.

"A lot of baby boomers neglect their retirement planning because they think they are going to continue working past the traditional retirement age," says Cynthia Hardman, a certified financial planner (CFP) in Bainbridge. "Many boomers aren't looking at retirement as an option. But if they are not planning adequately for their older years, they may find that they are left with less lifestyle than they envision."

Making sure the years ahead are golden

However, Hardman says there's good news for baby boomers who have underfunded their retirement nest eggs: If you're willing to adjust your lifestyle and your expectations for retirement, there are financial catch-up strategies that can provide security for your golden years.

The first step for late savers is to do a retirement-needs calculation. Noting that you should plan on retiring with at least 80 percent of your pre-retirement income, Hardman suggests using one of the many Web-based calculators to determine how much you'll need to sock away to provide that level of income. The American Savings Education Council (ASEC) offers a retirement calculator at its Web site, www.asec.org.

The increasing cost of health care has become a key factor in retirement planning, adds Hardman. Because medical co-pays and deductibles are rising each year, baby boomers should consider putting away an additional $150,000 just to cover health expenses.

"If you're in your 50s, you have a limited time to plan for your retirement, so it's important to start as soon as possible," says Hardman. "You don't want to wait until you are retired and don't have any more paychecks coming in."

If you're fiftysomething and playing catch-up with your retirement savings, Hardman has the following tips for you:

• Maximize tax-deferred accounts. Once you've reached the age of 50, the federal government allows you to make "catch-up" contributions to your IRA and 401(k) plan. For example, at age 49 you can put up to $15,500 in your 401(k) for 2008. But at 50 and older, you can put an additional $5,000 away, for a total of $20,500. For IRAs, the 2008 maximum tax-deferred contribution is $5,000. But if you're 50-plus, you can put in an extra $1,000 for a total of $6,000. The catch-up provision also applies to 403(b) and 457 plans.

• If investable income is limited, you may want to consider some financial belt-tightening in order to contribute maximum amounts to retirement plans. In recent years, much of the responsibility of retirement funding has shifted from employers to employees. Therefore, individuals need to focus on how much they are spending and how much they need to save. “It’s typical for us to want to spend our money immediately,” Hardman says. “But here’s the bottom line: If you want to retire comfortably, you better take an interest in planning for it.”