



The Investment Coach: Should I own stocks?

By Lewis Walker For The Crier

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It seemed like a simple question. A longtime reader of this column asked, "With all of the volatility, at my age, should I even own stocks?"

As with many questions involving financial planning, my answer was, "It depends." All financial strategies must be framed by the specific circumstances, goals, and objectives of the client.

The retired gentleman explained that he and his wife were in relatively good health for people their age, and longevity was a family trait. He offered a general description of his financial posture which indicated high levels of liquidity. The couple had no debt, and their grown children were self-sufficient and doing well.

Essentially his question dealt with asset allocation. What mix of assets would meet his income and safety goals? What did he want their money to accomplish? More information was needed.

Mitch Anthony, in his book "The New Retirementality: Planning Your Life and Living Your Dreams...at Any Age You Want," Third Edition (Amazon, \$14.99; Kindle edition, \$9.99), points to a study that showed that not long ago the greatest fear harbored by Americans was "dying." Now, it's living too long, getting old, running out of money, and being a burden on one's children and loved ones. Longevity risk in an inflationary scenario plagued by volatile markets is a growing concern.

Be sure to order the Third Edition of Mitch Anthony's book, which contains added material revolving around a concept highlighted in Chapter 17, "Maslow Meets Retirement," and Chapter 18, "Calculating Income for Life."

At the root of every financial planning question is security, the foundation for Abraham Maslow's famous Hierarchy of Needs. What does it take in today's dollars to live in your home, nothing fancy, but a comfortable basic living? This is Survival Money.

Next is Safety Money. How much should be in a safe reserve to meet contingencies? The next level in the pyramid of need is Freedom Money, income desired to add fun and motivation to life.

Gift Money is dedicated to church and charity, although tithing often is included in Survival Money. What are you giving to charity, to children or grandchildren, or other causes?

At the top of the pyramid is Dream Money. What have you not done that you wish to do? If you want to buy a vacation home or take a dream trip, we can put a price tag on that. That money, once spent, will not be available to generate ongoing income.

Once we know what it takes to power your life in after-tax dollars, we subtract sources of income from non-portfolio sources such as Social Security, pensions, or continued employment. "The gap," the difference between need and non-portfolio income, tells us what your portfolio has to produce.

When we know the rate of return required from your asset pool, we can discuss the appropriate asset mix. The challenge today is inflation and taxes. Suppose you want to spend five percent of your portfolio's value each year to meet cash flow goals. Add three percent for inflation and you need an eight percent total return.

Uncle Sam wants you to pay your fair share, so assume a twenty-percent average (not marginal) federal and state tax bracket. With taxes and inflation included, a total average annualized return of ten percent is required to meet your five percent spending target.

How to achieve 10 percent consistently over time with fixed income yields at historical lows, yields that are net losers adjusted for inflation and taxation, calls for more complex strategies.

"Should I own stocks?" What seemed like a simple question is not. The gentlemen left my office with a copy of Mitch Anthony's book and an Income for Life worksheet. More discussions will follow.

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