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Retirement Savings Going to Last? Five Things You Need to Know.

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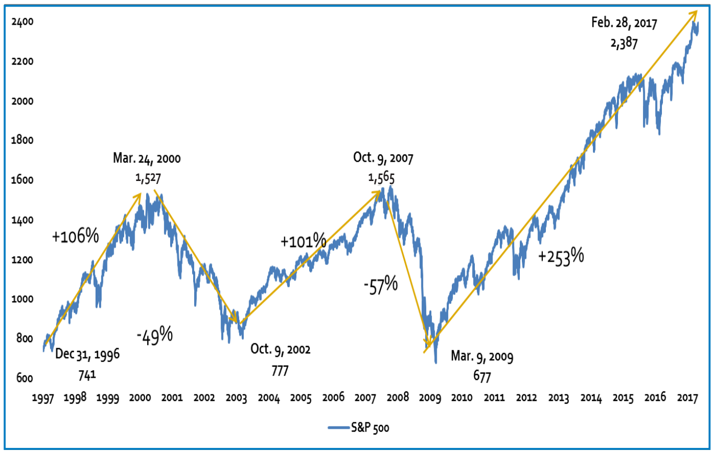
If you're within five to seven years of retirement or if you're already enjoying your retirement years - it's now more important than ever to review your investment portfolio and make important adjustments that can help ensure your retirement goals and dreams are fulfilled.

Unconventional Times Call for Unconventional Strategies

Equites are in the midst of an eight-year bull market, while interest rates are close to 30-year lows, making both the current equity and bond markets a challenge for investors close to or in retirement. And while no one can predict how markets will perform moving forward, we do know that if either the equity or bond market, or potentially both, begin to reverse from today's levels, investors approaching or currently in retirement will be especially vulnerable. These unconventional times could dramatically impact your ability to afford the retirement lifestyle that you worked your entire life to achieve.

To help keep your retirement goals on track, consider these five core strategies.

S & P 500 - 20-Year History



Source: FactSet, Morgan Stanley & Co., Morgan Stanley Wealth Management GIC. Past performance is no guarantee of future results.

Strategy #1: Start with a Goals-Based Planning Approach

Rather than trying to "beat" the markets, goals-based planning involves positioning your financial assets to increase the probability of achieving what is most important to you and your family.

Goals-based planning relies on the development of a personal financial roadmap that provides a clear path to achieving your goals. It requires planning and discipline. It involves constructing an investment strategy that includes building a solid safety net around your portfolio that enables you to pursue your dreams and aspirations.

Strategy #2: Adjust Your Asset Mix as You Near Retirement

Conventional wisdom, and many Investment Strategists, suggest investors should have a higher percentage of their assets invested in the equity markets, especially for the long term. While often a solid strategy for many, we believe that this may not be the best strategy as you approach retirement. Why? A major equity correction early in your retirement years – combined with steady withdrawals from your savings – could put you at risk of outliving your assets.

With today's equity markets at elevated levels, a smarter strategy may be to consider reducing your equity allocation. By doing so, you are in a much better position to slowly increase your equity allocation over the long term, either by making additional investments or allowing the equity markets to grow them over time. The net result seeks to provide you with greater downside protection when you may need it the most.

Strategy #3: Diversify Your Equities to Reduce Risk

Diversification is one of the best ways to protect your assets over the long term. In today's unprecedented market environment, consider adding layers of diversification within your portfolio, especially when it comes to equities.

Examples of diversification would include large and small capitalization stocks, international equities and other investments. You may also want to explore more defensive equity strategies, such as a high-quality, blue chip equity portfolio that has historically paid solid dividends and has the potential to increase those dividends over time.

Your financial advisor can work with you to identify appropriate sectors that align with your retirement timeline and tolerance for risk.

Strategy #4: Beware of Bond Funds

We believe that fixed income should be a core component of any investment portfolio, especially for someone either approaching or in retirement, but bond funds may not be the best strategy. When you own a bond fund, you actually own a "share" of equity in a bond portfolio, a share that can have variable cash payments, a fluctuating share price, and most importantly, no certainty of getting your capital back at maturity.

A strategy that includes a fixed income bond ladder might be a smarter way to invest in fixed income. Here, you directly invest in quality bonds in which each security has a specific and different maturity date that is often referred to as a "ladder." This approach helps minimize interest rate risk, while increasing the liquidity within your portfolio. What's more, it puts you in a better position to take advantage of changes in interest rates.

Strategy #5: Track and Monitor Your Progress

During more challenging market environments, it's important for investors to stay on top of their investments and to know how much risk their portfolio has and to know how their results are tracking with their goals. This is especially true if you are five to seven years away from retirement or are currently in retirement. In our view, challenging times can create excellent opportunities, if you are prepared to take advantage of them.

It's important to have good communication with your financial advisor to identify opportunities to grow and preserve your hard-earned assets so you can remain on the path to financial independence.

Take Action Now

For investors whose retirement is on the horizon, changes in the equity and bond markets can have a significant impact on the savings they've worked their entire lives to achieve. With less time available to "recover" from market swings, it's important to be astute and focused on where you are and where you want to be.

Take the time to make smart decisions so you can comfortably live out your retirement and achieve everything that is important to you and your family.

About the Author

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