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Investment Risk in Retirement Years

By admin

As Joe Farnsworth* from Toronto discovered, published return percentages do not necessarily tell the whole story of an investment portfolio [1] performance. Joe retired 9 years ago from the Toronto Police Service from which he collects a serviceable pension each month.

When Joe retired he decided to try **investing his life savings ($300,000) on his own** in a mix of stock mutual funds so he could also see some growth in his savings. When the market swooned shortly after he invested his money, Joe stayed invested in order to ride it out and when the market recovered he benefited from that as well. However, his brokerage statements, which had an annual performance percentage on the first page, made it appear that he had not lost any money and yet he was still down about $75,000 or 25%.

What Joe and others like him often experience is the fallacy of statistics. Here is a three-year example that shows just how distorted numbers can get. If an investor invests $100,000 and after the first year loses $50,000, he is naturally down 50%. In the second year, if he gains just $16,600 back, he is up 30%. In the third year, he makes no return for 0%. In this scenario, the total return is -20% for an average annual return of -6.8%. But what is the dollar value of this same account? Of the original $100,000, the investor has just $66,600- a loss of 33% with an average annual return of -11%.

The trouble with performance numbers is that they sometimes mask a problem for retirees needing to draw income from their investments. Joe was fortunate as he also had a pension so he could wait out any market fluctuation until his investments recovered their value. Many retirees need to create income from their investments, but if performance statistics do not accurately portray reality (losses), it can spell disaster. When losses occur to a retirement portfolio, investors must cut back on the income they draw in order to give their investments a chance to recover. If they do not adjust, then their money never has a chance to regain value and they face the risk of running out of money during their retirement.

The best way to avoid major losses altogether is by using a professional to assist with your investment planning **[2].** Joe moved his investment portfolio over to a financial professional in Toronto and was very pleased with the changes they made to his asset allocation. Creating a diversified blend of investments can greatly reduce the ups and downs in a portfolio and preserve the needed income throughout retirement years.

**Fictitious characters for illustration purpose only.*

Questions about Your Retirement Strategy?
Contact our office! [3]

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