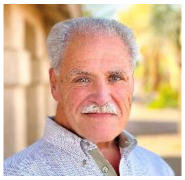
Assessing Your Retirement



By Opus 111 Group’s Mike Maehl

July 2022

You’ve worked diligently and saved and invested for retirement. You put in 40–60 hours per week for a whole lot of years. Now, at long last, you’ll get to kick back and do whatever pastimes you enjoy. You no longer have to punch a clock. A retirement of leisure is your reward for a lifetime of labor.

Then came the pandemic and the Russian invasion, which led to higher interest and inflation rates.

This has put pressure on our economy, with your stock investments having lost about 20% of their value and with bonds and CDs still effectively paying nothing. All of your plans feel as if they’ve been upended. *So, what are you supposed to do now?*

Understand that in today’s world, whenever you either did or are planning to retire, it’s reasonable to expect this stage of your life to extend for 20 or 30 years. You have time for the markets to continue to support the retirement you wanted – presuming you make a few adjustments, as needed, to your strategy.

Rule #1—*Don’t panic! The good news is you have options.*

To begin, do your best to *objectively* assess the risks around you. Focus on helpful, informative, and accurate sources. (These do not include daily headlines or pundit blatherings.) Perhaps, most important of all, recognize what is – and is not – within your control. Primarily, you can control your attitude. You can’t control the markets. In that regard, you need to accept the certainty of uncertainty that comes with investing…in anything.

This is why, to help ensure the long-term growth of your retirement assets, we at Opus 111 Group recommend using a strategy of asset allocation to meet the timing and duration of your various goals. It’s never an “all in one” type investment as there is NO one investment that can meet all your different needs at different times. It’s all about the timing of your needs, whether that need is a one-time or ongoing requirement, that will help create the best mix of investments for you…a mix of quality investments that will provide you the funds you need, when you need them.

Now, in retirement, unlike the saving you've been doing all along, you need to change your thinking to the spending side. The phrase is that you've moved from accumulating your assets to creating a plan for decumulating – spending – those assets. If you're a diligent saver, remember that it's OK to spend down your savings (after all, that's what that money is there for). Just make sure that your spending levels can be sustained throughout the duration of your retirement.

You need to determine your annual all-in living expenses and create a monthly average of them. Next, factor in your sources of guaranteed income, such as Social Security, pensions, annuity payments and the like. Is there a negative or positive difference?

If it's negative, how much will you need to take from your portfolio to support your needs? William Sharpe, winner of the 1990 Nobel prize, called the use of investment savings in retirement, "the nastiest, hardest problem in finance." That's because answer to the question depends on many unknowns, including your own longevity, as well as inflation, interest rates, bond yields and your financial needs.

I believe the key to you being able to successfully manage this is that, after identifying your goals, both near *and* long-term, create a financial strategy that allows for unknowns, using asset allocation and diversification, to include a three to six month cash reserve in order to reduce the potential for selling when you may not wish to do so.

Your strategy should help you understand exactly what you can spend comfortably each year. Without this kind of a strategy, you risk either failing to spend what you want and can, or worse, outliving your money. Working from a position of knowledge instead of guesswork is the best way for you to have a stress-free retirement.

Finally, if you want to preserve your buying power over your retirement, you need to keep invested in stocks, whether with funds or individual issues, as you see fit. Despite their volatility and potential losses, such as is now going on, stocks have historically offered the best returns. These long-term total returns, growth plus any dividend income, will help you fight the hidden tax of inflation on your buying power and so help your retirement stay on track.

In closing, here's a great quote from blogger Eddy Elfenbein about why you should invest in stocks.

"My point is that equities (stocks) are completely different from other classes of investments. It's the only one that captures human ingenuity, which is the ultimate asset."

The proverbial bottom line is that no matter how much you plan and strategize, retirement will find a way to surprise you — that's just a fact of life. Hopefully, though, the planning you do will help minimize any potential downsides from those surprises while also helping you enjoy the positive ones.

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