Tough decisions for today's investor

By L. JAKE CARPENTER
VP Investor Relations

Due to a variety of political and economic factors, individuals are having to make some tough decisions as it relates to their retirement and investment accounts. I want to focus on addressing those tough decisions, as well as some alternatives to being positioned in stocks, bonds, and mutual funds.

I run across two common situations that are causing people heartburn. Either they have a bunch of money that is earmarked for retirement in a 401(k), IRA, or other retirement account, and the account balance is dropping every day due to market instability. Or they have a lot of cash sitting in checking, savings, or CD accounts at the bank, earning little to nothing.

L. Jake Carpenter

Let's talk about the 401(k), IRA and retirement account money first. There are some questions you should consider, especially if you are getting close to retirement or already retired. Your answer to these questions will give you some perspective on what changes to make to your investment accounts, if any. Here is the first question you should consider.

Will I need income from the money I've invested in the markets, at any time in the next 10-12 years, for basic living expenses or discretionary spending in retirement?

So here is the deal. We all feel the effects of our current economy with gas prices at an all-time high, inflation getting out of control, and interest rates increasing, to name a few. All things considered, it's reasonable to assume that we could be in for at least another six years of a shaky market. That means it could be 10-12 years before market accounts get trued back up.

If you are trying to ride this out and you're not currently making contributions, you should consider if you can afford to leave that account alone for a 10–12-year time horizon to allow the market to come back. Most of the time, I advise my clients to start scaling down on the amount of market exposure they have when they get within 10 years of retirement. I recommend only leaving the amount of capital in the market that you can afford to leave alone for at least 10 years. Next question...

Are you currently contributing to your retirement account and likely to do so for the next 10 years?

A market-driven account usually makes the most sense when you are working and contributing to the account. If you are currently contributing, and likely to do so for the next 10 years, you will be able to take advantage of purchasing equities at a discount when the market is down; therefore, you are able to buy more shares and capitalize when the share price goes back up. If you are not contributing to your account, your account is basically like a bobber on the high seas going up and down. You just hope that the market will be up when you need to take some income.

Take some time to think about these questions and explore where you are with how much you want to be in stocks, bonds and mutual funds. Final question...

If you were sitting at your dinner table, and you took all the money you have currently invested in the stock, bond and mutual fund market, and put it in stacks of $100 bills in the middle of the table, how much would you want to put right back into the market?

Close your eyes and picture this for a minute; just think about it. Now, how much of it would you feel comfortable putting back in the market? I ask this question of all my investment clients. Their answer often takes them by surprise. Most of the time the first thing out of their mouth is, "I wouldn't put any of it back in the market!"

Now let's back up a step. Is it really that you don't want ANY market exposure, or that you want to limit your market exposure? Maybe you're more comfortable with 20% or 40% of it back in the market. I can't tell you what your answer is, but if you ponder your answers to these questions it may help you determine if, how much, and where you should be investing based on your fears, concerns, and risk tolerances.

If you have determined that you want to move some of your qualified retirement account money out of stocks, bonds, and mutual funds, then the next question is, where is a good place to invest money right now? I assume that you would probably like to create some steady income that is reasonably reliable. Remember, it's not about how much cash you have, it's about how much cashflow that cash can generate. It's a fact that there are some great options for parking cash, in a shaky economy, with a large, reputable insurance company. Options such as life insurance cash values, fixed annuities, and lifetime income annuities may offer some guarantees, but the income potential is usually lower and may not have enough to keep up with inflation.

Income-producing real estate may be another great option to consider. It's an investment vehicle that tends to be lower risk, with the potential to produce income and growth as well as potential tax advantages. Equilus Capital Partners, LLC has income-producing real estate projects located in the Northwest. Our investors like the fact that they can drive a few hours and physically see what they are invested in. If you are using straight cash to invest, you may be able to take advantage of a depreciation schedule, which could provide some tax advantages on the income you receive.

Finally, let's talk about cash! I'm referring to the cash in your checking, savings, and CD accounts at your bank. These can be attractive places to park cash short term. We all need to have some cash in our checking and savings accounts for emergencies. But generally, I advise only keeping about 6 months' worth of your living expenses in the bank, plus any other larger amounts you expect to spend in the next year. Anything more than that you should consider investing.

The big risk of parking cash in checking, savings, and CD accounts at the bank is that the growth will not keep up with inflation. I remember in 1997, gas was 99 cents a gallon. Now it's hard to find a place that sells gas for less than $5.00 a gallon. If the growth of your money does not keep up with rising costs, you will be forced to spend into your principal. And if you live long enough, you might run out of money. Don't let your cash sit around doing nothing. Work with a financial advisor to determine the best options that may be appropriate for you and get the most out of your money.

We're the educators; you are the decision-maker. It is time to make better decisions by knowing all your options! Feel free to reach out to me for a complimentary initial consultation. **Call to learn more. (509)665-8349.**