

ARE YOU ON TRACK FOR RETIREMENT?

As a financial planner, I receive questions on a daily basis regarding individual's finances. While every question is different, ultimately a majority regarding retirement planning boil down to one of two fundamental questions: "am I doing the right things to put myself on track to retire comfortably?" and "do I have the right investments to get me there." This document focuses on the second question.

DO YOU HAVE THE RIGHT INVESTMENTS?

The answer has less to do with finding the single perfect stock or mutual fund. In fact, the key to this question is changing your idea of what the "right" investment really is.

Very likely, many people who ask this question believe that there is one "right" investment out there that will solve all their problems. But that's the wrong approach. At best, searching for the single best investment or fund is often a waste of time. Unless you're clairvoyant, you cannot know which one will come out on top - the markets and their associated returns are too unpredictable. And at worst, engaging in a vain quest for a winner can often lead to the classic and costly mistake of getting in at the peak: funds that have been riding the tops of the performance charts are often ready to tank. Buying them is dangerous.

Fortunately, you don't have to obsess over which funds are leading the pack. There's a better way to determine whether you have the right retirement investments. Ask yourself if you're following three simple and time-tested principles.

1) DO YOU HAVE THE RIGHT STOCK AND BOND MIX?

Once you've given up the notion that you can pick the next hot mutual fund in advance, you can focus on the real key to investing for retirement. And that's creating a blend of stocks and bonds aggressive enough to generate the returns you require, but not so risky that your retirement savings will be decimated by market meltdowns. When you're younger and have more time to recover from short-term setbacks, you can afford to tilt your mix towards stocks. As you age and become more vulnerable to losses, gradually shift towards bonds. The table to the right illustrates what an appropriate mix of stocks, bonds, and cash might look like at various stages of your career.



2) ARE YOU KEEPING YOUR FEES DOWN?

You can't predict investment returns, but you can predict how much you'll lose to high fees. That's why you should be sticking to funds with low annual expenses. There are no guarantees, of course, but the funds with lower costs tend to outperform peers that operate with the drag of higher fees. As a general guideline, you shouldn't be paying more than 1% a year for a US diversified stock fund or 0.8% for a bond fund, excellent funds can be found for significantly less.

3) DO YOU REBALANCE EVERY YEAR?

Over time some of your investments may soar while others lose money. Result: the blend of assets you put so much thought into will inevitably be thrown out of balance. So to stay on track for retirement, periodically recalculate your desired allocation and restore your portfolio to its appropriate balance by selling shares of winners and investing the proceeds into the losers. Ideally, you should perform this on a regular basis, perhaps quarterly, or at least annually.

The beauty of rebalancing is that it forces you to do what investor so often have trouble with - buy low and sell high. Rebalancing regularly may even be able to reduce your portfolio's risk and boost its return. Do it regularly and you can feel confident you're doing what's "right" with your investments.