Keep Your Retirement Funds Safe By Avoiding the Stock Market Mistake

BY R. E. BRANCH

Relying on the stock market as your retirement investment tool of choice is like using Las Vegas as your financial advisor. Unfortunately, many people have retirement portfolios that are heavily invested in mutual funds and other stock market items. Even worse, the average American doesn't realize how weighted in stocks their retirement portfolios are, and then they wonder why their retirement accounts fluctuate so drastically.

First, here are a few facts about the stock market and its performance over the years. In 1999, Congress was under pressure to invest Social Security funds in the stock market because of the extreme upward trajectory of the stock markets during this decade. Before doing so, Congress asked the Brookings Institute to report on the performance of the stock market's 121-year history (from 1871 to 1999). Here's what they found and reported in their article "Risk and Returns of Stock Market Investments Held in Individual Retirement Accounts" (available at www.brookings.edu):

- The average annual stock market return on investment has only been 6.3 percent, not the 10 percent+ some brokers and financial advisors claim.
- The stock market has been subject to wide variations with long and unpredictable periods of gains and losses.
- For approximately 60 years (about one-half of the measured time), the annual rate of return was *less* than 6.3 percent.
- For approximately six years, the stock market showed a negative rate of return.
- On several occasions, the stock market gains of the previous 10-12 years were completely wiped out during several down periods of 2-3 years, and it took years to recover from the losses.
- More recently, from Sept. 25, 2001 to Sept. 25, 2002, the S&P dropped from 1003.45 to 819.29, a loss of 18.3 percent in one year.
- On October 17, 1987 (Black Monday), the stock market lost 18 percent+ of its value *in a single day.* It was the largest loss in American stock market history.

As a result of this report, Congress concluded that no Social Security funds should be invested in the stock market, as much of the time (about half according to the Brookings Institute report) the market lost asset value. If Congress decided that the stock market was not a good investment choice for retirement funds, then the average American should take heed too.

But if the stock market is as risky as the report says, why don't more financial planners and advisors steer their clients away from heavily focused stock portfolios? Well, here's a fact few people realize: Most professionals who do financial advising and/or planning have a securities license, which means they can sell stocks. They also typically work under a broker or dealer, who only makes money when those who work under them sell or trade stocks. Even if an individual financial planner wants to offer a non-stock market related product, he or she has to get approval from the broker or dealer to sell it. But most brokers and dealers only want to sell securities items, as that's when they make the most money.

Additionally, most large firms that advertise their financial planning services are really brokerage

firms. So no matter how often their ads tell you to "trust" them or that they're "bullish" with investing, when you use one of those firms you're putting your money in the stock market — and putting your retirement in extreme risk.

If you're tired of gambling with your retirement funds, consider the following suggestions.

Know Where Your Money Is

Take out your portfolio documents and look at what you have. If you don't know what something is, ask your financial planner. Is all or most of your money in stock market items? Most people have little knowledge of where their retirement funds are invested. When they receive their regular portfolio statements and documents, they look at the dollar number (the current value) and little else. But if you really want to plan for your future, you have to take an active role and understand where your money is.

Investigate Other Retirement Investment Options

Despite what some financial planners might tell you, there are many other retirement investment options that are not contingent on stock market performance. Some to consider include:

- **Life Settlements.** A life settlement is the sale of a life insurance policy covering a person who has a limited life expectancy, normally 10 years or less. The person selling the policy receives a lump sum of money (rather than letting the policy lapse or sell it to the issuing company for its cash surrender value), and the firm or individual who buys the policy receives returns based on the insured's life and not the market trends. While past performance is not a predictor of future performance, it is a good indicator. And

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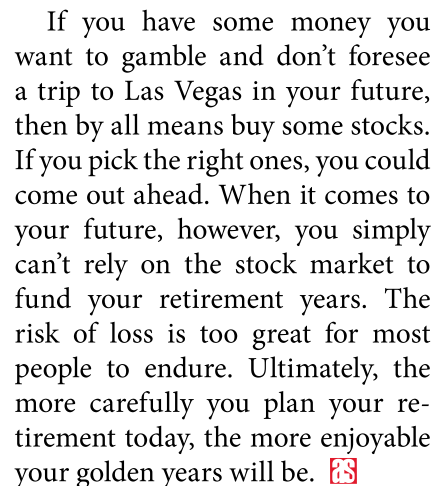
in the last 25 years, the return on investment for life settlements has been 15 percent-16 percent per year.

• **Whole Life Insurance.** Considered "old fashioned" and often forgotten, whole life insurance has many advantages that can help people plan for retirement. This is one investment where, as long as you choose an insurance company that's financially strong, you can't lose. As your policy builds cash value, you can write loans to yourself and then pay yourself back. You also get a reasonable rate of interest that enables you to build more cash into your policy. And unlike an IRA, whole life insurance investments grow tax free, meaning you're not taxed when you take the money out.

• **Fixed Index Annuities.** Also referred to as an equity indexed annuity, a fixed index annuity is a life insurance product that pays gains based on the stock market. However, unlike most securities or mutual funds where your account balance can fluctuate due to market performance, premiums deposited into a fixed index annuity are guaranteed to never go down due to market downturns. In other words, you can participate in market-indexed interest without market-type loss. With this option, you pick which stock market index you want to be tied to and then you choose a cap, such as 70 percent. When the market goes up, you get 70 percent of the gain rather than the full 100 percent. But when the market goes down, you're guaranteed not to lose money, no matter how low it goes.

Find a Financial Planner or Advisor Who is Not Tied to the Stock Market

If you're being advised by someone who makes money from stock market transactions, what kind of unbiased advice do you think that person will give you regarding other retirement investment options? Ideally, your advisor should suggest you diversify your portfolio across things like cash, bonds, stocks, alternative strategies, commodities, and precious metals, not simply a variety of mutual funds with different names and "styles" like large-cap value, small-cap growth, midcap blend, international small-cap value, and so on. These are nothing more than marketing gimmicks. Finding someone with the credentials of Certified Retirement Financial Advisor (CRFA) is best.



It's Your Future

If you have some money you want to gamble and don't foresee a trip to Las Vegas in your future, then by all means buy some stocks. If you pick the right ones, you could come out ahead. When it comes to your future, however, you simply can't rely on the stock market to fund your retirement years. The risk of loss is too great for most people to endure. Ultimately, the more carefully you plan your retirement today, the more enjoyable your golden years will be.

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