

Your Money Team: Are equities too risky?

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Q: My adviser told me I need equities in my portfolio, but I am retired. Aren't equities too risky?

A: The equity markets have taken a tremendous beating over the last year, so retirees are smart to be concerned about owning stocks, especially in too great a proportion in their portfolio. As a retiree, excessive volatility can threaten your financial well-being, but that doesn't necessarily mean that you should have a 100 percent fixed income portfolio.

Equities provide the potential for growth but also involve risk. Important factors to consider are how much future income you require, how much risk you can tolerate, and whether equities are the best way to achieve that growth or steady income.

"There are good reasons to have equities in your investment portfolio long into retirement," says Adam Obrecht, Director of Investment Management Services at LWBJ Financial.

Growth

"Your retirement has a good chance of lasting 35 years or longer," says Obrecht, adding, "With a 50 percent chance that a 65-year-old will live to 90 years old, we have to plan well into the future in order to make sure clients have enough income." Having a portion of your money invested in the stock market can give you the appreciation you need.

Inflation

Since many retirees do not have inflation-adjusted monthly payments from pension plans, having investments that exceed inflation can be important. Equities have been among the few consistent ways to beat inflation over time. During that 35-year retirement, Obrecht says, inflation will be a major factor. Bonds and cash equivalents may provide income and security, but may not keep pace with inflation, which means you fall behind.

Research

Before you purchase either single stocks or equity mutual funds, research the health of the holdings, historical performance, and the types of risk you're taking on. Purchasing single stocks exposes you to more risk than a diversified equity mutual fund or various funds in different equity asset classes. Try to spread your risk around.

What amount of equity exposure is right for you?

There is no one-size-fits-all asset allocation. In determining your allocation, consider personal factors, including your age, your overall wealth, your tax situation, and your current and future income needs.