The Car and House Story

The need to save money before retirement is something everyone is aware of. At least they should be. And everyone getting serious about retirement is asking themselves if they'll have enough.

Tools to effectively accumulate those funds go by many names: 401k, 403b, IRA, 457(f), and others with various IRS Code numbers. These accounts are not taxed when we earn them but get taxed when me make withdrawals to pay our bills.

Others, like ROTH IRAs, get filled with after-tax money, and along with basic stock and bond type portfolios, hopefully grow over time. Some of them are never taxed again. And then there are things like Health Savings Accounts that accept before-tax money which can grow over time and then allow tax-free withdrawals if they are used for specific purposes. How good is that?

Since March of 2009, there have been some ups and downs, but for the most part, it's been a steady up trend in values. But if you think the world is now fundamentally different and that up trend is going to persist through your retirement, I've got bad news for you.

Some advisors strongly suggest you move some of, if not all, your money out of the market. They argue that market risk is high and as you get older, the pain associated with a market crash is extreme. They play to your fears which may or may not be valid.

But internally, the clients are asking themselves, "Why would I want to move my money? After all, I've done pretty well where I am for the past 8-10 years. My accounts have grown nicely and I have much more than I started with".

They continue by saying "What you're suggesting does not support what has actually been happening with my investments".

My response at this point goes as follows:

First, unlike many other advisors, I don't want you **OUT** of the markets. I want you **IN** the markets. The bull market we're enjoying might continue for years or it might correct tomorrow. I just don't know. If I did know, we probably wouldn't be having this conversation.

So, let me be very clear; I want you to stay committed to the markets. But I do want you to **consider transfering the potential risk of a market correction to someone else**.

This is what I mean. Right now you may be 100% exposed to whatever happens in the market, both the good and the bad. The market goes down 40%, you lose 40%. Chances are the people managing your accounts will not lose a dime if that happens. All the loss, when and if it happens, will fall on you because you are shouldering 100% of the gain or loss in your portfolio. I question if it's in your best interest to continue this way. I think it's in your best interest to transfer some of that risk to someone else.

Let me explain.

Remember when you bought your first car, the best one you could afford? The first thing you did before you drove it off the lot was to insure it. If somebody hit you or you hit someone else, it was insured because you didn't want to incur the financial loss of fixing your car, much less someone else's. So you transferred the risk to a third party, call it an insurance company.

When you bought your first house, it was probably the largest single investment you had ever made at that point in your life. You insured your home in case there was a fire, or hurricane, so your loss would be limited if something bad happened. You probably insured yourself against a potential liability if someone got hurt, resulting in a financial loss to you. So again, you transferred the risk of financial loss a third party, an insurance company.

Most likely, you do the same thing today with respect to potential health risks and even your life. Apart from a deductible, for which you self-insure, any risk of significant loss is now carried by an insurance company. And yet, here you are with your retirement assets, and you are self-insuring the whole amount. You alone are carrying the risk of loss if there is a market crash.

To remedy this, I want you to consider buying an "insurance policy" to protect yourself if there's a market correction or crash. These contracts are called deferred annuities, contracts from insurance companies that allow you to participate in market gains but guarantee your principal against market losses. You stay invested in the markets, but you no longer carry the risk of loss. This is particularly important when time is not on your side. Like when you are thinking about retirement.

This is what insurance companies do. They assume the risks that you or I don't want to carry by ourselves. Yes, they charge a fee to absorb the risk, but I can show you how, over the time you have left on earth, that fee will be offset by the gains you make when there is no risk of loss.

Furthermore, because of the way the contracts are designed, and because the "insurance" keeps your principal intact over time, not participating in the inevitable corrections means that your chances of coming out ahead over the next several years are very high.

So I encourage you to move a percentage of your various portfolios to an insurance company in the form of an index annuity. Staying invested in the markets is a rational and realistic way to grow your money and/or provide an income over the next several years. If you don't have someone you trust to give you the very best 'insurance company' from which to buy your coverage, let me know and I'll find you someone.

By transferring some of the risk, you're able to ignore the news when the inevitable market decline happens. There is value to be had from peace of mind. The goal is to be able to participate whenever the market gains but not participate when there are market declines.

There are ways to receive a predictable and safe income and have your accounts grow. As for the money you didn't insure, you'll now have time to let the markets recover, which they do. Being able to get on with your life in a state of financial freedom is priceless.

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