MANAGING YOUR FINANCES

Lessons Learned From Years of Volatility

NOW THAT STOCKS seem to be on an upward swing, investors are hoping that the heart-wrenching market gyrations are behind them. But, of course, investors always need to plan for volatility. We asked three certified financial planners how the roller-coaster ride of the past three years is shaping the advice they are giving now to clients in or near retirement.

Robert Wander, of Wander Financial Services in New York City, helps his older clients rein in their expenses. "When you're retired, the biggest thing you have a certain amount of control over is your spending," he says.

Short-term spending control may come down to simple moves such as eating out less. Longer term, retirees need to think about bigger lifestyle changes, says Wander. Instead of moving to a smaller home in ten years, you could do it five years from now.

Working for a few more years can also result in a larger nest egg. For clients who are nearing retirement, Wander poses the question, "Is it more important for you to retire at a specific date, even if that means not having the lifestyle that you envisioned?"

On the investment side, one possible solution to low yields, he says, is to buy foreign bonds in currencies offering higher yields. For a typical 65-year-old, Wander suggests 10% in foreign bonds and 15% in U.S. corporate bonds. He generally recommends 25% in U.S. stocks (70% large capitalization, 20% mid cap and 10% small cap), 25% in foreign stocks (80% developed, 20% emerging) and 10% cash. He usually suggests 5% each in real estate, commodities and other alternatives such as hedging strategies.

Debbra Dillon, of Dillon Financial Planning in Eagle, Idaho, hasn't changed her approach. As always, she stresses the importance of a portfolio that is diversified across many asset classes. She also still uses the "bucket" approach to tapping assets in retirement, perhaps using certificates of deposit for early expenses while leaving the volatile stock bucket to grow.

She has noticed a shift in emphasis on the part of new clients as the market begins to recover. "They're not so much concerned about leaving a lot of money to their heirs anymore," Dillon says. Instead, the focus is now on making assets last a lifetime.

Many of these new clients, Dillon says, still have unrealistic expectations for low inflation, high stock market returns and robust home-price appreciation. She uses historical return and inflation numbers to bring their expectations in line with reality.

Low rates on CDs and bonds mean that retirees may have to settle for lower income. Although a diversified portfolio may include higher-yielding assets such as emerging-markets bonds and real estate investment trusts, Dillon says, "retirees should not be increasing their risk in order to boost income." She says dividend-paying stocks should be a part of a retiree's portfolio.

Rick Miller, of Sensible Financial Planning in Waltham, Mass., says his advice to clients hasn't changed, but he communicates his advice in a different way. Hoping to nudge older clients to become more conservative, he now makes sure he quantifies "the dollar size of their loss if the market tumbles."

Consider a 60-year-old who has a $1 million portfolio with $400,000 invested in stocks. If the market again fell 50%, Miller says, the loss would be devastating for someone earning $50,000 a year. "If they're 60, they may not be able to replace that," he says.

Miller also stresses matching specific assets with future expenses. Say a couple expects $15,000 in expenses after taking Social Security and pension income into account. He will recommend that clients invest in individual bonds in amounts and maturities that will coincide with expenses. An annuity is another way to line up assets with spending. Depending on an exact amount of income from stocks can be iffy. "We're trying to match that spending with resources that we know are going to be there," he says. To protect purchasing power, Miller recommends Treasury inflation-protected securities that mature when investors need the income. K —JOSEPH LISANTI