BUILDING BLOCKS FOR RETIREMENT

Investment Strategy

Stay The Course Or Make A Change?

Investing for retirement is a long-term goal. But that doesn't mean you should select your investments and forget about them. While it's usually not smart to constantly switch your investment lineup, making changes is perfectly acceptable under certain conditions. Here are some situations that may call for changes.

When You're Nearing Retirement

If your retirement plan account is heavily invested in stocks as you approach retirement, it may be time to adjust your investment strategy. You may want to consider moving some of your money out of stocks and into less risky investments, such as bond and cash equivalent investments.

This approach can help lower your risk exposure and help protect your account from large losses should the stock market tumble. Unlike younger participants, you probably can't afford to take on too much investment risk since your short investment horizon doesn't allow you much time to ride out any downturns.

Shifting from a growth strategy to one that seeks to preserve some of the gains you have made is a reasonable approach as you near retirement. But don't ignore stocks completely. Consider keeping a percentage of your assets invested in stocks because of their long-term growth potential.

When You're Concerned About Volatility

The prices of securities rise and fall all the time. This is known as market volatility. While such movement is part and parcel of investing, there are times when the markets are particularly volatile for extended periods.

Experts recommend that retirement plan investors try to keep a long-term perspective during periods of volatility and resist the temptation to make a lot of changes to their investments. However, if you find that major market declines are keeping you awake at

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night, then it may make sense to adjust your investment mix so you're more comfortable with its level of risk.

When Your Allocation Changes

Over time, changes in an investment market — up or down — can alter the makeup of a portfolio, even one that was carefully allocated among different asset classes. If, for example, stocks have been performing well, the percentage of stocks in your account may grow beyond your intended allocation — and beyond your risk comfort level.

Rebalancing allows you to reestablish the percentages you originally allocated to stocks, bonds, and cash equivalent investments. One way to rebalance is to transfer money among investments. Alternatively, you can invest new contributions in the underrepresented asset class or classes until you achieve the allocation you want.

Jill Changes Her Balance as Retirement Nears

Jill's portfolio 5 years from retirement
20% Cash Equivalents
30% Stocks
50% Bonds

Jill's portfolio 7 or more years from retirement
10% Cash Equivalents
55% Stocks
35% Bonds

This example is hypothetical and is used for illustrative purposes only. The proper asset allocation for your situation may differ. In applying any asset allocation model to your situation, you should consider your other assets, income, and investments (for example, your home equity, IRA investments, savings accounts, and other retirement accounts) in addition to the balance in this plan.

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