Investment mistakes retirees often make

Retirement Years
By Don Freeman

RETIREMENT is not the time you want to be making too many big investment management mistakes that will be difficult or nearly impossible for you to recover from. With that in mind, here are a few big mistakes:

Mistake 1 : Not understanding or maximizing your retirement or entitlement benefits

Every country has its own set of retirement and health insurance programs for retirees which need to be factored into your investment management plans, as some countries have more complicated entitlement systems than others.

For Americans, its a real alphabet soup that includes everything from social security, 401k plans, Roth IRAs, traditional IRAs and defined pension plans to fund retirement plus Medicare and various Medicare plans (like Plans A, B, C, and D and Medicare Advantage) for health care. To further complicate matters, taking social security early means reduced benefit income while withdrawing funds at the wrong time from tax-differed retirement plans can have large tax consequences.

In other words, you need to seek expert advice when you are young and continue to seek such advice after you are retired to ensure that you always maximize the return from your entitlement benefits.

Mistake 2 : Buying unnecessary annuities or insurance policies with a guaranteed return

Given the volatility of the stock market and record low interest rates in most developed markets, you might be tempted to buy annuities and insurances schemes promising a steady income stream for life. Such products also allow you to outsource both the risk associated with outliving your money and the management of your investments to professional investment managers.

However, be aware that financial advisors love selling annuities or insurance policies to retirees because they tend generate high and upfront commissions for themselves. Moreover, such schemes tend to be complex with very fine print that you will need to read very carefully to understand.

Mistake 3 : Being forced to sell investments at the wrong time

Having to sell investments when the market is slumping in order to meet basic spending needs or to meet an emergency is almost as great of a risk as outliving your savings and investments. For that reason, you should not tie up all of your money in long-term investments. Ideally, consider keeping enough money in short-term investments like cash, money market funds, certificates of deposit and short-term bonds or bond funds to cover at least a year's worth of living expenses and at least one big emergency.

In addition, "ladder" the maturities of your CDs and bonds so that some come due in the short term (e.g. three to six months), the medium term (e.g. six months to a year) and the long term (e.g. one year or longer) in order to avoid the risk of having everything come due at once when interest rates are really low.

Mistake 4 : Assuming you can always manage your money by yourself

If you largely outsourced the management of your investments while you were working to a financial advisor because you did not have the time to manage them, its not a good idea to suddenly decide to manage them on your own once you retire simply because you now have the time to do so and you want to save on advisory fees.

On the other hand and if you have always been a do-it-yourselfer when it comes to investing and you have had a good track record of profitable returns for the long-term, there is no reason to think you won't be any less successful managing your own money in retirement.

However, what happens if you become incapacitated and you can't manage your own investments anymore? Moreover, can your spouse or family manage your investments without you being able to guide them? If you aren't sure what will happen, then it would be a good idea to already have a strong relationship with a qualified financial advisor whose track record you are already familiar with.

You should consider all of the 'eggs' in your retirement. Photo: 401 (K) 2013

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Beckoning wealth wisdom from ancient Babylonia

Finance
By David Mayes

THERE is a great book that I like to recommend people give to their children to read when they become teenagers; Not long and very easy to read, the book is called *The Richest Man in Babylon*, and while it was written early in the last century, the author uses a series of parables set in ancient Babylon to illustrate some timeless financial principals that are believed to be the secret to this ancient city's success.

Most people only know about Babylon from the Bible or from Bob Marley songs, where it is portrayed as something of an evil city. The historical Babylon in fact was a testament to human ingenuity and became the most prosperous city of its time despite not being on any major trade route, not having sufficient rainfall to produce crops, and not having much in the way of natural resources at all. In case you are curious, Babylon was located in what is now Iraq.

The Babylonians erected one of the highest protective wall systems around their city in history despite not even having locally sourced stones to build with, and they built extensive irrigation systems to allow for cultivation of the arid land on a scale not before seen in ancient times.

The reason behind their ability to become so wealthy lied in the fact that at the core of their culture, they passed down principals to everyone in their society to teach them how to build and maintain wealth. Despite the sophistication of the modern financial world, the principals remain true today.

An ancient Babylonian site at Behistun. Photo: Dynamosquito

The most important point stressed many times throughout the book is that it doesn't matter how much you are presently earning, if you consistently save no less than 10% of your earnings and continuously compound by re-investing any interest or earnings, you will eventually achieve financial freedom. It doesn't take a very large return at all for the magic of compounding to eventually grow your meager savings into something significant.

There is another extremely important lesson told in a few different ways on avoiding losses incurred by trying to get your money working too hard, as this defeats the magic of compounding. This is probably the most difficult in today's world of low interest rates, but it reinforces my belief that this is still a good place for a large chunk of one's wealth. I have sadly seen many of my clients get into serious trouble by trying to find that elusive safe yield in today's near zero interest rate environment.

Interestingly, the book ends with a story which basically illustrates the value of old fashioned hard work. A man who is not afraid to work is more likely going to be able to not only keep any fortune he makes, but will also be able to wisely grow it. A playboy on the other hand can easily squander the largest of estates. There is nothing in the book that is rocket science, but a mix of habitually saving, making cautious investments, and working hard are an ancient recipe for success that helped the Babylonians build one of the most impressive civilizations of the ancient world.

They will still work for anyone who puts them into practice consistently. I highly recommend giving it to you teenagers and spend some time talking with them about the principals to make sure they sink in. Sadly this is one area the modern education system usually neglects.

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