ROAD TO RETIREMENT: PART II

HERE'S SOME ADVICE ON ADVISORS.

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This article is the second of a three-part series on retirement.

Advisors

The relationship with your financial advisor is a true partnership, where both parties are working toward a common goal—your financial stability and financial independence. A financial advisor may help manage your investments, perform portfolio evaluations, and serve as an educator to ensure you have a greater understanding of the investment environment. In addition to registered investment advisors, there are a number of other financial-based professionals who may be in a position to assist you with many financial planning areas. The following list of professionals, as well as their industry-focused professional designations and educational requirements, should serve as a guide in your search for advice:

- *Accredited Asset Management Specialist (AAMS):* This is a 12-module, self-study course. Modules cover asset management, investment policy, risk, return, performance, asset allocation, investment strategies, tax issues, retirement planning, insurance products, estate planning, ethics, and legal and regulatory issues.
- *Accredited Tax Advisor (ATA):* This self-study program includes six courses and is a graduate-level course. Pre-requisites are a bachelor's degree, professional experience, a description of goals, and tax planning experience.
- *Accredited Tax Preparer (ATP):* This course provides basic background on tax preparation issues for individuals and sole proprietorships.
- *Chartered Financial Analyst (CFA):* This is an intensive three-year program, with three six-hour exams. Pre-requisites for the designation include a bachelor's degree or comparable work experience, and three years of investment management experience.
- *Certified Financial Planner (CFP):* The Certified Financial Planner Board of Standards is a regulatory organization for financial planners. It awards the CFP designation to individuals who meet its requirements. The curriculum covers insurance, income taxation, retirement planning, investments, and estate planning. In addition to self-study programs, classroom instruction programs are offered at colleges and universities across the country.
- *Certified Investment Management Analyst (CIMA):* Prerequisites are three years of investment management consulting experience, an interview, and a preliminary exam. The program covers due diligence, asset allocation, risk management, and other investment management consulting concepts.
- *Certified Investment Management Consultant (CIMC):* CIMC certification is a two-level, self-study course that covers investment management consulting. It also addresses asset allocation, formalizing investment policy, and active versus passive investment performance evaluation.
- *Certified Specialist in Tax-Sheltered Accounts (CSTSA):* The CSTSA self-study program is for advisers who work with 403(b) plans.
- *Chartered Life Underwriter (CLU):* The CLU self-study curriculum includes 10 courses—eight required and two electives. Pre-req-

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uisites are three years of business experience and client service in the financial field.

• *Chartered Financial Consultant (CHFC):* The CHFC self-study program includes 10 courses—nine required and one elective. Pre-requisites are three years business experience and client service in the financial field.

• *Chartered Mutual Fund Counselor (CMFC):* This nine-module, self-study course is a primer on mutual funds.

• *Chartered Retirement Planning Counselor (CRPC):* The CRPC program is an 11-module, self-study program for advisers who provide retirement planning for individuals.

• *Chartered Retirement Plans Specialist (CRPS):* The CRPS program is targeted at advisers who work with qualified and non-qualified retirement plans.

• *Master of Science/Financial Planning Concentration:* This graduate-level program focuses on financial planning, wealth management, tax planning, retirement planning, and estate planning. Participants must have a bachelor's degree to enroll and must complete 12 courses for 36 credits.

As is the case with all professional designations, having one does not necessarily mean a person is good at what he or she does. Word of mouth, through referrals made by friends and colleagues, is an excellent way to meet potential advisors. Even though they may come highly recommended, it is always a good idea to interview a number of advisors to determine compatibility. Only in this manner will you be able to determine who you are most comfortable partnering with in guiding you toward reaching, and ultimately maintaining, true financial independence and long-term security.

Retirement Investing

The need for retirement planning does not end with the onset of retirement. A new retiree's focus should shift from building wealth to managing and preserving it. One major challenge is making the investment portfolio supply cash flow for the duration of life—and through various economic and market conditions.

Factors that drive a portfolio's longevity include asset mix, spending level, and the investment time frame. Certain aspects of these factors are within an investor's control while others are not.

Asset Mix

Asset mix refers to the ratio of stocks to bonds in a portfolio. This determines risk exposure and expected performance, and is one of the most important decisions investors of all ages make when constructing an investment portfolio. Historically, stocks have outperformed bonds and outpaced inflation over time. Consequently, the larger the equity allocation, the greater a portfolio's expected return —and risk.

Keep in mind that risk and return go together. A higher allocation to equities increases the risk of experiencing periods of poor returns during retirement. But if you can handle the risk, having more equity exposure in a portfolio enhances its return potential. Growth can bring higher cash flow, inflation protection, and portfolio endurance over time. While it is logical that investors should have an equity component in their portfolios, the actual weighting should be dependent on one's time frame, risk tolerance, and spending flexibility.

Spending Level

Portfolio withdrawal typically is described in terms of either a specified dollar amount (e.g., $100,000 per year) or a percentage of annual portfolio value (e.g., 5% of assets each year):

• Specified dollar amount: Withdrawing a fixed amount each year and adjusting it for inflation can provide a stable income stream and preserve your living standard over time. But the portfolio may survive only if future withdrawals represent a small proportion of the portfolio's value.

• Percent of annual portfolio value: Withdrawing a fixed percentage of assets based on annual asset value makes it unlikely that you will deplete retirement assets because a sudden drop in market value would be accompanied by a proportional decline in spending. But this method can produce wide swings in your living standard when investment returns are volatile.

Retirees who need relatively consistent cash flow may want to combine these two methods.

It is always a good idea to interview a number of advisors to determine compatibility.

Investment Time Frame

Investment time horizon may be the hardest to estimate, especially if it is the same as your lifespan. In this case, you can only guess how long your portfolio must support spending. If you plan to bequeath assets, your investment timeframe may extend beyond your lifetime. This may influence your risk and spending decisions as well.

Timeframe forces a tradeoff between the short and long-term. Retirees with a longer investment time horizon might choose a higher exposure to equities. But they may have to offset this risk by being more flexible about spending over time. Elderly retirees and others with a short time horizon may choose a less risky allocation or a higher payout rate, although they can experience rising spending levels, too. In any case, retirees should think carefully about equity exposure and avoid taking more risk than they can afford.

Planning involves assumptions about the future, assumptions that may not pan out. Although you cannot avoid making assumptions, you can ask whether they are realistic and consider how your lifestyle might change if future economic and financial conditions are much differ-

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ent than projected.

For investors, perhaps the most difficult task is keeping track of various investment portfolios.

Although you cannot fully control these and other factors involved in portfolio endurance during retirement, having more wealth can improve the odds of having a less stressful financial life. A more substantial nest egg might enable you to take fewer risks, enjoy a higher sustainable spending rate, or extend the productive life of your portfolio.

Investment Websites

Thanks to modern technology, it is easier than ever for physicians to take control of their financial situation. Whether you are researching investment options or performing financial planning retirement projections, online resources abound.

While it's obviously important to know what you own, it is equally important to know how well, or not well, specific investments and the overall portfolio are doing, on both a dollar and a percentage basis, over varying time periods. Morningstar's portfolio tracker (www.morningstar.com) is a great tool to use to keep a close eye on your investments. You can enter your holdings on a screen or import the data from Quicken, Yahoo, and even many online brokerage statements. Heavy on analytics, it provides overviews and performance charts, and allows you to view a visual map and analysis using several factors, including a breakdown of holdings by asset allocation percentages. Similar tracking can also be accomplished through the MSN Money Website (http://www.msn.com/en-us/money/personalfinance).

One of the best overall financial sites is Yahoo Finance (www.finance.yahoo.com). Yahoo's text-based interface makes navigating through the site simple as well as fast. The opening page provides up-to-the-minute market data, prices on individual stocks, and bond market commentary. From this site, you can also access respected outlets such as Briefing.com, *Financial Times,* and *Business Week.* Of particular interest is the stock research link, which takes you on a journey of exceptional research tools covering stocks, bonds, mutual funds, and options. International news also is available, as well as financial-based chat rooms.

Economic data, and the expectation of new data being released, certainly are major factors affecting stock market movement. Moody's Analytics economy website (www.economy.com) provides access to raw data and general economic news, both domestic and worldwide, and helpful commentary to interpret it all.

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For a general financial education, spend some time with the solid tutorials on market basics with The Motley Fool (www.fool.com). Ease is the key on this site, as all of the educational information and tools are easily accessible from the website's "Fool's School." Another option for general market and retirement planning education is the *CNN* Money website (www.money.cnn.com). This site takes advantage of the long-time involvement of many experts with varied interests and specialties. It serves as a valuable reference for both investment novices as well as the more seasoned physician investor.

Given that there are more mutual funds to choose from than common stocks, there is an abundance of sites dedicated to evaluating both load and no-load mutual funds. The leader in the field of mutual fund research is Morningstar (www.morningstar.com). Via its website, visitors can obtain a one-page summary of almost any mutual fund. Included are analyst reports and the Morningstar ratings.

While most sites provide a variety of financial news, one of the best sites dedicated to U.S. and global events is the *Wall Street Journal* (www.wsj.com). Links on the home page will take you to news by region as well as topic.

For those who are students of technical analysis, the site to visit is Bigcharts (www.bigcharts.com), where you can easily chart individual securities and mutual funds.

There are, of course, many other sites investors may find valuable. For one of the most comprehensive glossaries of financial terms, go to www.investorwords.com. For a nice overall investment site, take a look at www.investorguide.com. For economics-based articles, both Bloomberg Business (www.bloomberg.com) and Barron's (www.barrons.com) offer an online alternative to their written publications.

Bottom Line

Doctors are advised to prepare for retirement long before they remove the shingle from the door. Having success in retirement means having the proper advisors to prepare the pathway to this important stage in a physician's life. **PM**

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