DAVIS INVESTMENT GROUP

Registered Investment Advisor Firm

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RETIREMENT PLANNING MISSTEPS

Now that firms are moving away from defined benefit pensions and putting more responsibility for the retirement risk on investor's shoulders, it is imperative that investors pay more attention to their retirement nest egg and the planning process.

Longer life spans, lower expected returns on investments and firm incentives to retire earlier compound the issue. The bottom line is that more responsibility is on the individual to start planning and saving early. Planning is not just before retirement, but also during retirement.

Underestimating your life span and overestimating investment returns – Current assumptions are that individuals now working will live to be 90. That means they need savings and investments to last at least 25 years in retirement. Recently, the dot-com bust and the Great Recession have hurt yields and savings.

At the same time, returns on fixed-income investments, which traditionally make up a larger share of portfolios as one ages, are at historically low interest rates and bond yields. Current assumptions about investment returns, for both fixed-income and equities, are about 2 percentage points lower than they were a decade ago.

Underestimating retirement expenses– Even if investment returns aren't as they used to be, expenses such as taxes are still rising. Housing and uninsured medical costs, including prescription drugs and dental care, become a hefty expense for most people as they age. The proportion of total spending that people over 75 spend on health care, 15.6%, is nearly double that of people 55 to 64, according to the U.S. Bureau of Labor Statistics.

Not diversifying enough – Asset allocation is a stumbling block for many investors. Don't become enamored with an asset class or your company stock, think Enron and Lehman Brothers, because of your work. Some investors avoid equities because of fear from recent major declines. Investing too conservatively means you miss out on the chance for higher gains.

Tying up too much money in your homes – In another diversification misstep, some investors put too much money into their own homes, and many are still paying a mortgage in retirement. Downsizing isn't always as easy as it seems, and high real estate expenses can quickly deplete limited retirement income. Using your home as a cash cow leads to problems down the road.

Not accepting the need to reduce spending – The most difficult part of retirement planning is accepting the shift in lifestyle that inevitably must come, unless you plan accordingly. Reducing debt and expenses while you are still working should be part of your blueprint. Serious talks with a financial planner should begin 18 to 24 months before your planned date. This should not be the start of your planning, but the last phase before the happy date.

Overlooking all the tax implications of retirement plan distributions – Tax issues connected to Medicare premiums and additional taxes under the Affordable Care Act require consideration before taking distributions. If you plan on working past 70-1/2, continue with your current 401k plan as there is no Required Minimum Distribution (RMD) like there is for a traditional IRA. But if you do not plan to work, rolling over your company retirement plan to your personal self-directed IRA makes managing easier and usually more accessible with more and better investment choices.

Preparing early is the best defense against making serious retirement mistakes. Unforeseen knocks hit many individuals in mid-life such as "gray divorce", late child bearing, multiple divorces and sometimes the need to support elderly parents. That is why it is prudent to revise your projections periodically based on new information and goals, and rebalancing of asset allocations at least annually is a must. Remember, it is all about money management from your 20's to and thru retirement.

If you want or need more information on how to avoid these planning missteps, I would be happy to discuss. Call or email me at the numbers below.

Some basic money management tips:
Start planning and saving early
Save as much as you can
Establish an emergency fund
Pay off mortgage by retirement
Stay out of debt
Wills and trusts up to date
Have fun before and during retirement
Balance living for today with living for tomorrow

FED Watch

The FED left interest rates unchanged while saying risks to the US economy have subsided and the labor market is getting tighter, suggesting conditions are getting more favorable for an increase in rates.

Market observers give a 12% chance of a quarter point rise in the Fed Funds at the November meeting, and a 52%

chance of a quarter point rise at the December meeting.

The next meeting is November 1st and 2nd.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at: bob@davisinvestmentgroup.biz