

FIXED VS. GROWTH, TRUTH VS. MYTH

Fixed-income investments have their place in a portfolio, but in the long run, your assets need to keep pace with inflation.

Should retirement mean ultra-conservative investment? That's a good question. Many couples and families are urged to invest more cautiously as they get older - with the help of their financial advisor, they refine the asset allocation of their portfolio to make their investment choices a bit more conservative.

On the other hand, some people want to invest really conservatively. Perhaps they are acting reflexively, given what has happened with the stock market in recent months. Or maybe they believe in a longstanding myth: the idea that retirees should embrace fixed-income investments exclusively and leave stock market investing to younger people.

That could be a huge mistake.

The roots of the myth. The retirees of the 1970s and 1980s (i.e., your parents) had vivid memories of the Great Depression. Those memories, and the persistent bear market of the 1970s, turned many of them off to Wall Street. In 1979, *Business Week* published a famously wrongheaded cover story called "The Death of Equities", which claimed that nothing could fix the stock market and forecast a bear market for years to come. CDs, money market funds and bonds seemed like wise alternatives.

Of course, the Dow Jones Industrial Average would embark on an amazing 18-year bull run in 1982, growing more than 1,500%.¹ So for some of these retirees, avoiding the stock market at all costs meant a severe opportunity cost.

Looking back, other financial factors explain why the myth held sway. Thirty years ago, more people were retiring on a pension, Social Security was less imperiled, and retiree life expectancy was not what it is today.

The necessity of growth investing. If you are over 60 today, you are really investing for the long term. Life spans are lengthening, and with advances in health care, living past 90 isn't so improbable for many of us. Your retirement may last 20 years. Or 30 years. Or 40 years.

Let's say it does - hypothetically, let's say that you live 30 years after your retirement date. What if your retirement income and savings barely increase over that time?

Turn back the clock to 1984. A gallon of gas was \$1.10, a brand new Dodge Ram sold for \$8,995, and a movie ticket was \$2.50. You could pick up a pair of men's leather shoes for \$40.²

We've had 25 years of low to modest inflation since. How much would you pay for these things today? Imagine today's prices doubling, tripling. Now imagine having to pay healthcare costs as well - who knows what they will be.

Financially, you don't get a chance to "turn back the clock" in retirement. Time marches on; consumer prices climb. So your retirement savings (and retirement income) have to grow at a pace equal to or better than the cost of living so as not to be effectively devalued by inflation.

This is why growth investing is so important for baby boomers.

Find the balance. Innumerable studies have pointed out the value of perseverance in the stock market, and the potential rewards for the long-term investor. While today's headlines may be troubling, your need to grow your retirement money is still there - and it isn't going to go away.

There's a place for fixed-income and equity investments in a portfolio. Both have their merits. A qualified financial advisor can help you to retire with realistic income assumptions and the right balance of growth-oriented and income-producing investments. Think about a face-to-face meeting with your financial advisor today, so you can plan to sustain your income and lifestyle in retirement.

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Citations. ¹ answers.com/topic/closing-milestones-of-the-dow-jones-industrial-average
² thepeoplehistory.com/1984.html

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