

Beware the “Black Swan”

By Evelyn R. Preston



Cheers to the senior smarties who heeded advice to update their trusts, health directives and beneficiaries. But with the economy still chaotic, have you also recalculated your net worth, pared monthly expenses, examined investment choices and implemented necessary changes? Time flies and retirement’s real! We may need to “reboot” our portfolios and avoid further future shock.

I have no debt but while I wait for my investments to recover, I still need to lower my spending. What more can I do?

Financial columnist, Michelle Singletary, advocates stashing the plastic permanently and only paying cash...trying it for 21 days noting all expenditures. Credit cards invite sneaky overspending, no matter how cautious we are. Cash makes us stop and think thrice!

Next month, I’ll be 70. I need some extra money to make ends meet. Should I consider a reverse mortgage?

Since I “shook” this innovative senior “piggy bank” in the winter ’09 column, reverse mortgages continue to lighten fees and loosen restrictions. They’re one strategy for avoiding a balloon payment or variable rate reset.

However, with iffy property values and reduced interest rates, doing your “home” work is more important than ever. Talk to a reverse mortgage broker. Understand the rules. Pinpoint all fees and penalties. Know exactly what you’re giving up, gaining back, for how long and at what cost. Even consider your heirs, your health

and the possibility that home sweet home may turn sour as we age.

I don’t understand what happened at Goldman Sachs—was it years of unfair market manipulation that hurt all the honest investors?

A simplistic view of Goldman Sachs’ (GS) complicated role in the recent financial crisis relates to the charge that the company created and touted to clients complex mortgage-backed securities that were 1) actually hand-picked by a bearish colleague; 2) designed for failure; and 3) that GS bet against its own recommendations—and won—while investors lost billions.

GS, a major recipient of bailout funds, reinvented itself into a commercial bank, quickly repaid its loan and with a positive trading record, generated huge bonuses for every employee. GS contends that despite on-going client lawsuits and SEC investigations, its customers approved of taking risks, and the firm has always put client interests first!

Read all about it—the players, complications, conflicts, charges and European connections by Googling “Goldman Sachs problems”—and render your own verdict. The company continues to do very well!

I’m 58 and retired. Should I put some of my money in annuities?

As part of your retirement cushion, annuities can offer life-long income, guaranteed payouts, locked-in returns, special riders and other plusses. Annuities come in various colors and flavors from immediate and variable to indexed and fixed—it’s imperative to choose the program that fits your

needs, goals and affordability.

All these goodies cost money so buyers must weigh the benefits vs. the charges and restrictions. A pro can help you decipher the specifics: surrender charges, life-certain options, high-water lock-ins, industry ratings, etc.—part of the modern annuity landscape.

I’m worried about retiring into a bear market and outliving my money. Is there anything I can do at this late stage?

Seek an expert like a Certified Retirement Counselor (new FINRA license), for regular financial check-ups and to explore a mix of investment options. M. Milevsky, a well-respected Canadian business professor in math and statistics, believes advisors should test portfolios for a “black swan” scenario, a term applied to extremely rare but potentially devastating episode (9/11).

Most portfolio computer programs only test general “what if” conditions, called Monte Carlo type simulations. These predict an outcome over a long period of time but can’t calibrate doomsday impacts—i.e., withdrawing money in a down market during protracted years of loss.

By implementing some specific changes in investments and lifestyle (living benefits, fixed yields, extra savings, etc.), investors can plan better, reduce their exposure to risk and not lose their “retirement income sustainability.”

Evelyn Preston has worked as a financial advisor for over 25 years. Her latest book, “Memoirs of the Money Lady” is available at www.money-lady.com. She can be reached at 650.494.7443.