Insights & Outlook

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Should Your Asset Allocation Be More Tactical?

The market downturn of 2008-2009 was hard for all investors, especially retirees, many of whom questioned their game plan amid huge losses. Investors questioned the value of long-term strategic asset allocation, in particular the buy-and-hold strategy. Many investors also began thinking about being more tactical. Market volatility tests buy-and-hold investors and in many cases increases the appeal of tactical asset allocation.

Tactical asset allocation is an active portfolio management strategy by which portfolio composition and weighting are altered in the short-term to take advantage of perceived differences in relative values of various asset classes. While tactical asset allocation may look appealing on the surface, it is best left to investors who understand its complexity. Otherwise, this strategy could leave investors stuck with an asset allocation that may be unsuitable for their goals, risk, and liquidity requirements. It is also important to keep in mind that active trading increases both taxes and transaction costs.

The bottom line: Pick a strategic portfolio plan with an appropriate asset allocation for your time horizon. Your individual portfolio should address both your immediate and intermediate needs. With the right plan in place, your portfolio will be better equipped to handle volatility, allowing time to smooth out the choppy returns.

There is no guarantee that strategic or tactical asset allocation will protect against market risk. These investment strategies do not ensure a profit or protect against loss in a declining market. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses. Please consult with a financial professional for advice specific to your situation.

Advisor Biography

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John has been in the tax and financial services industry since 1976 and is a member of The Institute of Certified Financial Planners, The NJ CPA Society and his local chapter of The Lions Club International, where he currently serves as their treasurer.
He has been a Certified Public Accountant (CPA) since 1978 and a Certified Financial Planner (CFP®) since 1990.

John specializes in developing financial strategies for physicians, business owners and high net worth individuals. He is also an expert on Income Tax savings strategies for physicians.
John has received numerous awards such as: Finalist in the Individual Investor of the Year Challenge, The National Quality Award; The Oppenheimer President's Council.
Community Service: He currently serves as treasurer of his church and the local chapter of the Lions club where he earned the "Lion of the Year" award for his service.

Personal: He has 3 children two of whom are CPAs, and 6 grandchildren.

Retirement Investing Q&A

Q: Under current law, at what age can you begin receiving Social Security benefits?

A: The earliest age at which you can begin receiving Social Security benefits is 62. However, you will receive a reduced benefit if you retire before your full retirement age.

Q: What are some big mistakes that people make concerning their retirement?

A: Not contributing to an IRA, a 401(k), or both is probably the single biggest mistake that is made. 45% of current retirees utilize their personal savings for retirement income; 62% of current workers anticipate personal savings to play a role during retirement.

Q: What is the maximum contribution to IRAs (both regular and Roth) and 401(k) plans in 2012?

A: If you are age 49 or younger, the maximum contribution is $5,000 for both regular and Roth IRAs, and $17,000 for a 401(k) plan. If you are age 50 or more, the maximum contribution is $6,000 for both regular and Roth IRAs, and $22,500 for a 401(k) plan.

Q: Are distributions (payouts) taxed on regular IRAs, Roth IRAs, and 401(k)s?

A: The short answer is that if you got a tax break on the contribution, you will pay taxes on the subsequent distribution. Contributions to regular IRAs and 401(k)s are generally made with pre-tax dollars (pre-tax contributions reduce your taxable income for the year in which they are made), so distributions are taxed. Roth IRA contributions, however, are made with after-tax dollars, so distributions are generally not taxed.

Q: At what age can you generally begin taking distributions from an IRA or 401(k)?

A: You can begin taking distributions from your regular IRA, Roth IRA, or 401(k) plan at age 59 ½.

Q: Can you roll your 401(k) over into an IRA?

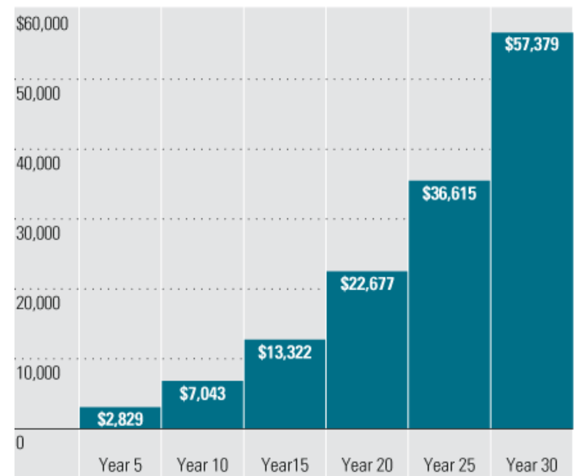
A: Yes. You can move 401(k) balances into a "rollover" IRA account without penalty. This option enables you to keep your money tax deferred, and can potentially increase your investment options, as IRAs are self-directed and 401(k) plans have investment options that are decided by the plan administrator.

Q: How can I begin saving for retirement?

A: Little changes can make huge differences. For instance, have a regular coffee ($1.75) instead of a latte ($3.50) every morning before work. Invest the savings each month ($1.75 X 22 workdays = $38.50), and you could end up with quite a hill of beans!

Sources: Employee Benefit Research Institute, 2012 Retirement Confidence Survey.

A "Latte" Savings



This is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes and transaction costs. The image assumes a hypothetical 8% annual return and that savings are invested at month end.

Risk Calibration for Retiree Portfolios

Managing risk during retirement has changed a lot during the past few decades. In the past, retirees enjoyed the luxury of much higher interest rates as well as pensions, which meant they could lower their equity holdings during retirement. For today's retirees, however, staying invested in low-return assets is a luxury they may not be able to afford. Instead, they should keep their eyes on the following risks.

Longevity: Longevity risk is the risk of outliving your assets. Given a long portfolio life span, retirees need more growth from their portfolios than cash and bonds can afford. Holding stocks is important for growth; however, the question remains: what's the right amount? In addition to considering a higher equity weighting, pre-retirees and retirees can also consider options such as deferring Social Security, working longer or part-time, and decreasing in-retirement spending, particularly after market downturns.

Long-Term Care: A year in a private room in a nursing facility now averages $78,000, according to a Genworth survey*, and long-term care in urban settings can be far more costly than that. If you are concerned that long-term care could eat away your retirement nest egg, you may want to consider purchasing a long-term care insurance policy. These policies are pricey, particularly if you buy one with an inflation component and/or if you're over 65, but they can provide invaluable peace of mind, too.

Inflation: Retirees living off of their investments don't receive cost-of-living adjustments (except for their Social Security and possibly their pension income), so inflation can readily translate into declining purchasing power and a reduced standard of living. Treasury Inflation-Protected Securities (TIPS) are the most direct way to hedge against an unexpected increase in inflation, providing an adjustment to an investor's principal to keep pace with inflation. Stocks are another, indirect way to guard your portfolio against the threat of inflation. They have the potential for higher returns than bonds, and inflation will take a smaller bite out of your future purchasing power. Owning companies with a demonstrated history of dividend growth is another way to help offset the effects of inflation on your portfolio.

Higher Taxes: Massive government spending and unfunded liabilities could translate into higher taxes across the board. Investors may be able to reduce tax liabilities by including tax-loss selling, Roth conversions, and municipal bonds. Roth 401(k)s and IRAs are also good options for tax-conscious investors seeking at least some tax-free treatment of their retirement assets.

*Report cited: “Genworth 2012 Cost of Care Survey, Home Care Providers, Adult Day Health Care Facilities, Assisted Living Facilities and Nursing Homes,” April 2012.

Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than other asset classes. Dividends are not guaranteed and are paid solely at a company's discretion. Municipal bonds may be subject to the alternative minimum tax (AMT) and state or local taxes, and federal taxes would apply to any capital gains distributions. TIPS are subject to risks which include, but are not limited to, liquidity risk, credit risk, income risk, and interest-rate risk. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation. Insurance guarantees are based on the claims paying ability of the insurance company.

Why You Need a Financial Advisor

After dismal portfolio returns during the "lost decade," investors may be wondering why they are still paying their advisors' fees. Until recently, the generally accepted (and expected) premise was that the advisor would deliver returns in excess of the market. But since many advisor-managed portfolios lost value with the market during the two major crises of the decade, many clients have begun to question the advisors' role and their justification for receiving fees even during periods of poor performance.

An advisor's value, however, may go beyond returns that beat the market. Of course, return is the first thing investors tend to think about, but there are other factors that influence the investing process and need to be carefully considered, as well. This is where an advisor can help you. Many investors do not align their portfolios with their risk tolerance; they overweigh in stocks expecting high returns and then can't sleep at night when the market fluctuates. An advisor can help manage your expectations and build a portfolio that's best suited for your risk tolerance level.

Another area where an advisor's expertise can be valuable is goal-oriented investment. Instead of accumulating all your savings in one place and investing them irrespective of a goal or timeline, an advisor can help you identify various investment goals (retirement, child's college fund, income-oriented investing) and then reorganize your portfolio according to these goals.

In addition to risk/return management and goal-oriented investment, wealth preservation, tax management, and the prevention of rash decisions are some of the additional benefits you may gain from the client-advisor relationship. When you evaluate your advisor's performance, think about how an advisor's value may extend beyond returns that outperform the market.

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