RETIRED INVESTORS - WHAT NOW?

PILANESBERG: Retired investors have been severely affected by the stock market roller coaster over the last two years. In addition to the significant drops that we saw in 2008/9, we are now seeing massive changes of direction on a weekly basis. These kinds of movements are very unsettling for all investors however retirees are most severely impacted. During these difficult times, it is important to return to basic principles to help you navigate these turbulent times.

YOUR ROAD MAP

Every investor should have a long term investment plan that guides all their investment decisions. This investment plan will be very helpful when the investment world is in a mess. If you spend any time looking at the history of all stock markets, you will quickly realize that the investment world is almost always in a state of instability. This makes the need for your own investment plan even more necessary. A proper investment plan is determined by your age and financial position in equal measures. The most important part of your investment plan should be the allocation to shares, bonds, property and cash. This combination will have the greatest impact on your investment performance over your lifetime so it is critical to get it right. The best way to illustrate this is to look at three people of different ages.

Table A: Age as a determinant of asset allocation

Asset class & % of your capital invested in the asset class	35 year old	55 year old	70 year old
Shares	65%	45%	30%
Bonds	5%	20%	30%
Property (excluding your home)	25%	25%	20%
Cash	5%	10%	20%
TOTAL	**100%**	**100%**	**100%**

If you only considered age as the determining factor for your asset allocation, then you could use the table above as a good guide for the remainder of your life. Unfortunately, life is not that simple as you also need to consider your current financial position. If we consider the example of a 70 year old lady who is very wealthy, it is likely that she is planning to leave the bulk of her assets to her children and grandchildren. This would require a totally different asset allocation as she could invest a greater percentage in shares and property and a much smaller portion in cash and bonds. Any major stock market movements are unlikely to impact her lifestyle as she will always have sufficient capital to meet her expenses.

In contrast, if we had another 70 year old man who is in a poor financial position, he should have very little capital invested in shares. This might seem like a bad recommendation as he needs as much capital growth as possible. Unfortunately, you can only get capital growth if you are prepared to take risk, the greater the potential growth, the higher the potential risk. An elderly investor with insufficient capital, cannot afford to lose any capital and therefore needs really low risk investments. This means he should have minimal equity exposure.

INFLATION IS A BIGER THREAT THAN A STOCK MARKET CRASH

You plan should

Our approach to investments has not changed since the downturn - recessions and stock market crashes should be taken into consideration whenever you develop an investment strategy. That means your portfolio should be able to tolerate dramatic stock market drops without creating the need for a change to your investment strategy. We do spend more time educating our clients about the markets and ensuring that they stick to the plan because we appreciate that these are difficult times (emotionally) for investors. One important factor that is influencing our investment decisions at the moment is the increased volatility that we are seeing on all the stock markets. We believe that this excessive volatility is going to be part of our lives for many months. As a result we are phasing investments into the market over 6 to 12 months to ensure that our investors participate in some of the market drops that are likely to occur in the next year or two. For existing investors, the volatility might be emotionally unsettling but it will not have a major impact on your investments if you remain invested.

For a person in their 60's - you need to remember that you should be planning to invest for another 20 to 35 years. Whilst retirement is a transition phase in your life, it is not the end of your time as an investor. Your capital still needs to grow so that you are not affected by inflation. This means you cannot change your portfolio to cash simply because you are retired. You will still need some exposure to shares as they will provide inflation protection provided you are correctly invested. As a result, we would advise older investors not to panic because of the market drop, you still have many years to allow your capital to recover. Unfortunately many retirees make the mistake of switching their investments to cash AFTER a market drop. This means they cannot participate in the recovery which means their losses are now permanent.

For a person in their 50's - you should be saving the most amount of money now as your costs should be reducing as you pay off your mortgages and your children become self-sufficient. The market crash has given you a great opportunity to buy good investments at a low price so you should be taking advantage of the crash to stock up. Try not be concerned about your existing investments because you will be saving for a few more years and therefore the capital will have a chance to recover.