SmartMoney
THE WALL STREET JOURNAL MAGAZINE

Is Your Adviser Still Right for Your Retirement?

The financial pro who gets you to your golden years may not be the right one to get you through them. Here's how to tell.

Let's say you get a call from your financial planner, who, concerned that markets are significantly overvalued, has decided to park 20 percent of your portfolio in cash. Your first reaction might be, "Sure, that sounds prudent." But, in fact, it might not be. Your planner may be giving the same blanket advice to all his clients the ones preparing for retirement now as well as those who are already retired and tapping their savings.

And if that's the case, you might want to find a new adviser.

Yes, even if you have a good relationship with your financial planner perhaps especially if you do now is the time to consider: Is the person helping you prepare for later life really the best person to get you through that period? The answer, frankly, is often no.

For the past 30 years, the majority of financial planners have been doing primarily one thing: helping millions of baby boomers build a nest egg. That's good. We've needed that help.

Problem is, the distribution phase of retirement the time when you withdraw funds from savings makes the accumulation part look like child's play, says Michael Gilbert, chief executive of Gilbert Advanced Asset Management in Kingsport, Tenn. When you're working, your paycheck allows you to ride out periodic declines in your investments. But once you retire, you can't afford a portfolio or an adviser that asks you to sit patiently through bear markets.

Take our starting example of a nest egg with one-fifth of its holdings in cash. If you're retired and pulling a steady 4 percent from your savings each year (traditionally considered a safe withdrawal rate), and if the return on the cash portion of your portfolio is zero, you end up losing 4 percent on that chunk of savings. But if your financial planner invests that same money in the bond market and can get close to a 4 percent return you aren't eating into your principal. "It's the difference between a total-return manager and a retirement-income manager," says Charles Farrell, a principal with Northstar Investment Advisors in Denver.

The former, which best describes the bulk of financial planners today, puts your money in the markets, diversifies and waits. And that works well if you have a long time horizon and don't need the money. The latter is (or should be) focused on several chores at once: producing income, reducing taxes and growing your portfolio, "all for 20 to 30 years, regardless of market conditions," Farrell adds. "That's hard work."

Indeed it is. And horsepower appears to be in short supply. "Do we have sufficient numbers of advisers with the needed expertise? I don't think so," says Craig L. Israelsen, an associate professor at Brigham

Young University who teaches personal and family finance. Too often, he says, investors, no matter what stage of life they're in, "get the same medicine," the same financial strategies.

Don't misunderstand: We aren't recommending you dump your adviser tomorrow. But if you're getting ready to retire, you need to ask him or her some pointed questions.

"How will we create income in retirement?" What you don't want to hear, says Gilbert, is that an adviser is simply attaching an automatic 4 percent distribution strategy to your savings, adjusted annually for inflation. If you're unlucky enough to retire into a lengthy bear market, your nest egg could expire long before you do. A better approach and again, one that takes time and effort is to assemble a diverse basket of income-producing securities (dividend-paying stocks, bond funds, master-limited partnerships) that yield both a stable "salary" and long-term growth. And speaking of income...

"What do we do when the sky falls?" Here, you want to pin down your adviser about potential sources of income for when the next economic calamity hits. (And it will.) Experts recommend getting your planner to articulate her strategy for sheltering your money in worst-case scenarios. And asking questions like these: What does my portfolio look like if markets fall 50 percent? How would I get distributions? What guaranteed streams of revenue are built in? The answers, Farrell says, are not something to learn after the fact.

"Have you put my portfolio through a stress test?" As part of a recent study, Israelsen compared two mutual funds, each with a starting investment of $100,000. Both funds, over the course of a decade, had identical annualized returns of 5 percent. But when he applied a real-world test to each withdrawing $5,000 at the end of each year the two funds had very different ending balances: approximately $68,000 and $101,000, respectively. The former, as it turns out, had steep losses early in the 10-year period. The lesson: A nest egg can look quite good on paper, he says. But when you subject it to stress (withdrawals, different levels of inflation, taxes), that's when you see just how durable a portfolio really is.

Of course, whether you realize it or not, you've almost surely been down this road before. When you were young, a family pediatrician or, say, a high school coach provided the help you needed when it came to your health or developing your athletic skills. But once you moved beyond those years, you needed doctors and mentors with different, and sometimes more sophisticated, abilities. That same kind of thinking applies to your retirement.

THE NEW RETIREMENT
MAY 25, 2011

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