POCONO RECORD

FINANCIAL SENSE

Retirement keys: risk tolerance, investment goal

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Editor's Note: *The Pocono Record Business section welcomes new columnist Ralph Grauso, who will write regularly for the Sunday pages.*

So you have been saving for retirement and think everything is going along just fine – then 2016 arrives with a historically volatile start.

Days like Jan. 15 when the Dow Jones Industrial Average (DJIA) dropped nearly 400 points due to lower crude oil prices and concerns about China are becoming the new normal. Now you are asking yourself, “What should I do?”

You’re nearing or in retirement, and this level of market uncertainty could threaten or disrupt your retirement plans.

You are not alone. This is a very real situation for many, and it is important to recognize that these feelings may be telling you that your financial plan is in need of attention — especially if you want to retire and stay in the Pocono Mountains area.

Pennsylvania is not the cheapest place to live for retirees. Just look at the these recent surveys – the National Institute on Retirement Security’s Financial Security for Future Retirees Survey found that the state ranked poorly in Medicare out-of-pocket costs for enrollees and in terms of housing cost burden for older households, with 34 percent of older households paying 30 percent or more of their income towards housing costs.

Additionally, Bankrate.com’s recent ranking of the worst states for retirees has Pennsylvania at 38 when it comes to taxes and 31 in cost of living.

Planning right and handling situations that can impact your portfolio in a well thought out way is crucial. Many times, when the market becomes erratic, I have seen panic set in, which can lead to impulsive decisions that can hurt long-term success. So, what can you do when the markets are so unpredictable, and you are trying to plan for or maintain your retirement? It starts with understanding your risk tolerance and investment goals.

When is the last time you closely reviewed your investment strategy? If you are like most people it has been awhile. Unfortunately, it is not uncommon for an investor to pick an investment allocation and never really look at it again, essentially leaving investments on autopilot without a plan or any oversight to stay on course. This can lead to grave consequences. It is important to periodically examine your portfolio to be sure what you own is consistent with your expectations. Just as you have likely experienced many changes from age 30 to age 55, your investment strategy should evolve through the years as well.

Here are a few things to keep in mind as you review your current investments:

• Know Your Risk Tolerance: This is key to determining the type of investments that will comprise your portfolio. Taking a risk assessment can help you understand if your needs and expectations for your investments match the general makeup of your current portfolio. If you are married, both partners should be involved in this process as it is common for spouses to have different risk tolerance.

• Your Time Horizon: When we are young and working, time is on our side and that often makes people comfortable with taking on some level of risk in their investments. With a long timeline leading to retirement, you will have time to rebound should anything go wrong. As you may be realizing, when you are closer to retirement, significant volatility can really hurt or even delay your retirement date and put a serious dent in your savings. So, the shorter your time horizon to retirement, the less risky you will naturally become. As this transition occurs, investments require your action and involvement to make adjustments to keep up with your changing needs and timeline.

• Emotions and Investing: Two key emotions that prompt investors to make impulsive decisions with their investments are greed and fear. There is a natural tendency to feel more confident and invest more aggressively when markets are high, and similarly for fear to set in when markets are low. With the recent market volatility, fear may be seeping in and prompting selloffs and investment decisions. It’s important to acknowledge these emotional triggers, as they can quickly turn you into your own worst enemy.

Chances are, retiring is something you likely only anticipate doing once. As such, investing when you are in or near retirement presents challenges that will be new to you, such as how to position market investments so they do not disrupt your income needs but still have opportunity for long-term growth potential. Taking on too much risk can wreak havoc on your financial plan and your wellbeing. Fortunately, there are proactive steps that you can take to help prepare for when volatility is the new normal. With an understanding of your risk tolerance and time horizon as well as the emotions that can guide your thoughts, you will be better prepared to create a financial plan to retire in any economy.

Ralph Grauso is the founder and president of ASC Financial Group an independent financial firm with offices in Allentown and Bartonsville, whose mission is to help retirees and pre-retirees design "a retirement built to last." Together with financial advisors, Robert Seiler and Josiah Grauso they work to help people increase and manage their retirement funds by providing income, estate, advanced tax and investment planning strategies. For more information on ASC Financial Group, visit ASCfinancialgroup.com or call 610-433-5300.