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Retreating to Cash Only Is Not the Answer

Financial Advisor Explains How Recession and Retirement Can Mix

IRVINE, CA (February 26, 2009) — So, who doesn't feel like yanking their remaining money out of the market, stashing it under a mattress, and hiding under the covers? After all, playing by the rules didn't seem to help much. Even diversified portfolios bit the dust. In 2008, the market's decline was broad-based and severe, ensnaring not only domestic and international equities, but fixed-income securities as well, from high-quality corporate bonds to municipal bonds. It may seem only cash and Treasury bonds were spared the dramatic declines. Especially for those nearing or in retirement, waving the white flag and retreating to cash may feel like the most prudent course of action. Yet, while cash and Treasury bonds were king in 2008, stashing every penny there may not be a risk-free option over the long-term.

Even in a recession, the long-term case for diversification is still compelling. As brutal as last quarter was, and as volatile as the market continues to be, 2008's returns for stocks and bonds are not at all typical of the long-term. Even with 2008 losses factored in, the S&P 500 Index averaged a solid 8.5% annual return over the past two decades (even though this past decade was one of the worst ever on record) and all bond categories outperformed cash over the past 20 years*. "Long-term, cash can significantly lag behind investment-grade bonds and large-cap U.S. stocks," says Arthur Cooper, financial services advisor and founder of Irvine-based Cooper McManus. "What's more, returns for various different classes vary significantly, making it smart to attempt to temper the impact of a poor year in one asset class by spreading investments among multiple asset classes." Additionally, anyone investing only in cash equivalents shoulders the risk that investment performance could be outpaced by inflation, eroding purchasing power, especially after taxes.

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Markets can't be controlled but plans can be tweaked.* Fear can often lead to hasty emotional decisions or no decisions at all. "Try to block out the market noise and consider steps that can be taken today toward being more confident about making money last throughout retirement," says Cooper. "For instance, if 4% was a reasonable annual withdrawal rate *before* the recent market meltdown, it now may be necessary to withdraw less each year." In fact, so that retirees don't have to make scheduled required minimum distributions (RMDs) from IRAs and qualified plans that are under water, the Worker, Retiree, and Employer Recovery Act of 2008 temporarily suspended RMDs for 2009. If that cash isn't required to meet expenses, consider leaving money invested for an eventual market recovery.

"In addition to reducing expenses to offset the downturn, working part-time for the first few years of retirement could help cover expenses with earned income, helping keep a portfolio intact. For others, it may be wise to delay retirement one or two years," says Cooper.

Don't embrace a risky scheme to get even. It's important for consumers to know where they stand in this volatile market, so get a financial check-up. Personal finances may not be as bad as feared. Keep in mind that converting to all cash now, means paper losses become real losses. Plummeting stock values may be more a function of fear than fundamentals. While no one knows how much punch this bear market has left, cashing out now and remaining in all cash, may mean missing out on the eventual market rebound and comparatively lower returns could make running out of money in retirement a real possibility. The flip side, of course, is that it's imperative to resist the temptation to make back quickly what was lost. Remember, market-beating gains generally are accompanied by oversized risks. In this unprecedented market, additional risk is particularly dangerous. If Bernard Madoff's Ponzi scheme taught us anything it's "If it sounds too good to be true, it probably is."

Ultimately, because everyone has different goals, tolerance for risk, and stomach for belt-tightening, so no single strategy is right for everyone. Often it's necessary to develop a plan that combines portfolio moves and lifestyle adjustments to help shore up a financial foundation.

About Arthur Cooper

Arthur Cooper has been in the financial services industry for over 20 years and founded Cooper McManus, an Irvine-based financial advisory and wealth management firm, in 1999. He specializes in providing comprehensive financial planning, estate planning and asset management services.

Mr. Cooper attended California State University, Fullerton and went on to fulfill the requirements to become a CERTIFIED FINANCIAL PLANNER™ professional. He has been a regional vice-president and district manager for three financial services companies, training other financial advisors and overseeing their careers, ethics, and performance. Cooper's passion is finding solutions

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to financial problems and further educating his clients. Sought out by local and national journalists, Cooper has been featured in Wealth Manager, been a radio talk-show guest and has had several articles published in Southern California Life Over 50 magazine.

Call Cooper's office at 800-516-5333 or visit www.coopermcmanus.com to learn more.

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Asset allocation seeks to maximize the performance of your investment portfolio using diversification and disciplined investing. Diversification can be thought of as spreading your investment dollars into various asset classes to add balance to your portfolio. Although using asset allocation and diversification do not guarantee greater returns or against the risk of loss in a declining market, it may be able to reduce the volatility of your portfolio.

SOURCE* Past 20-year performance reflects average annual returns. Source: Ibbotson, FMRCo. (MARE) as of 11/30/2008. Past performance is no guarantee of future results. You cannot invest directly in an index. See footnotes for important index definitions. Asset class performance represented by the following indices: U.S. Treasury Bonds - Barclays Capital (BarCap) U.S. Treasury Index; Cash - Ibbotson Associates SBBI 30 Day TBill Total Return Index; Inflation - Ibbotson Associates SBBI U.S. Inflation; Municipal Bonds - BarCar Municipal Index; Investment-Grade Corporate Bonds - BarCap Credit Index; U.S. Stocks - S&P 500 Index; High Yield Bonds - Merrill Lynch High Yield Master II Index; Foreign Developed-Country Stocks - MSCI EAFE Index; Emerging-Market Stocks - MSCI Emerging Markets Index; Real Estate Stocks - FTSE NAREIT Equity-Only Index.

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