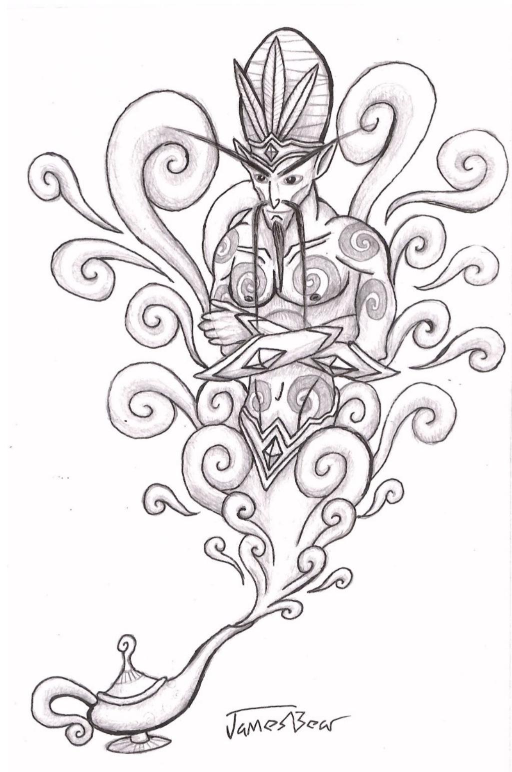

Three Investing Wishes:

Searching for a Genie in a Bottle

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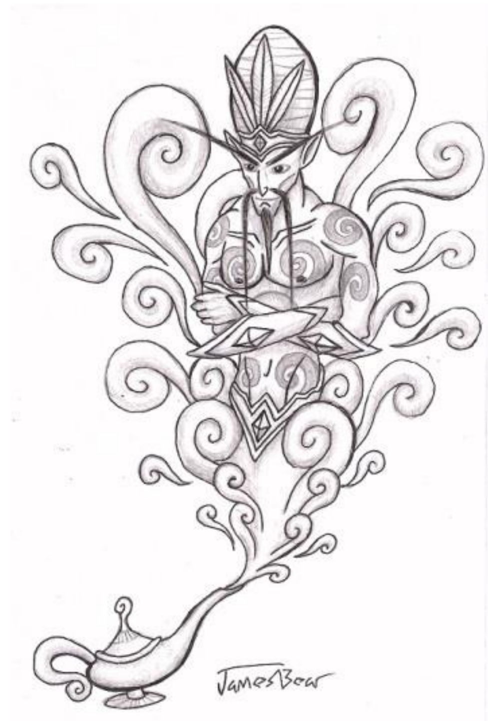
Three Investing Wishes

Traditionally, retirees have relied on social security, pensions and their own personal savings to fund their retirement income needs. This white paper discusses how personal savings fits into a retirement income plan.

As I meet with investors, I find that (in general) they have three wishes for their money:



1. High return
2. High liquidity
3. Low risk

The first wish is a high return on investment. Naturally, investors want to get the best rate of return possible. But finding high returns is illusive and potentially dangerous. High returns often come at a price - high risk.

Liquidity is another issue for investors. Liquidity is how easily an asset can be converted to cash.

Safety is a final concern for many retiree clients. They don’t want to lose their principal – particularly if they are depending upon the income to live on.

Unfortunately, short of finding a genie in a bottle, investors can't have all three wishes. You can pick one – possibly two – and life will pick the third.

So can we get two out of three wishes granted with investments that are currently popular?

FDIC insured bank accounts – With bank accounts you get safety and liquidity, but the rate of return is not as high as in the past. Remember the days of 14% CD rates? That was sure a long time ago. Retirees have been really hit hard by the drop in interest rates. Many were depending on CD’s to provide retirement income – and now need to search elsewhere for their income needs.

Bonds – Bonds are generally fairly liquid and pay higher interest rates than CD’s. Regrettably, they are often billed as safe investments by Wall Street. Bonds are not perfectly safe investments. They are subject to default risk (if the issuing entity or government fails to pay). The second risk is interest rate risk. If interest rates go up, bond prices fall.

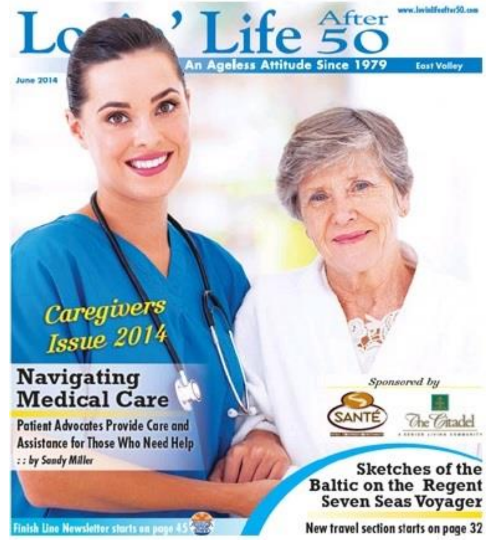
Stocks – One of the best investment vehicles for a potential high return are stocks. They also are generally very liquid – you can buy our sell publically traded stocks in an instant. Stocks meet the two out of three test – just beware of the fact that they fail the low risk wish.

Real Estate – Real estate is also an investment with a potentially high rate of return – however it often fails both the liquidity and risk tests. Many people have made a lot of money in real estate – but we also saw huge losses in 2007 – 2009. Some investors never recovered their losses. To add insult to injury, some real estate investments are packaged in real estate investment trusts (commonly referred to as REITs). Publically traded REITs are liquid investments traded on the stock exchange. However, privately held REITs can generally not be liquidated until either all the properties are sold, or the manager takes it public. Before buying a private REIT remember that this investment has a potentially high return – but is high risk and illiquid.

Annuities – Annuities also have liquidity issues – as most have surrender penalties for up to 14 years. If you purchase an annuity, you should definitely have other liquid funds available for emergencies. A variable annuity also has stock market risk, so like the REIT discussed above, it fails the same two out of three wishes that most investors have. A fixed annuity doesn't have stock market risk and generally provides a higher rate of return than comparable low risk investments, so it passes two out of three wishes that investors have for their money.

One word of warning about annuities! Many annuities are sold with a "guaranteed" rate of return between 5% – 8%. Since there are no investments currently available with that high of a guaranteed rate of return, these quoted rates are for income riders that are in the contract – often with an additional fee. I call this part of the contract Monopoly™ money. Beware that this is not real money that can be withdrawn from your account!

Since there is no perfect investment, be sure and find out where the imperfections lie. There are strings attached to every investment. Ensure that you understand the strings that are attached before your invest.



Originally appearing in
Lovin' Life After 50
June 2014 Issue

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Teresa Bear specializes in retirement planning and asset preservation for retirees and their loved ones. Teresa works primarily in the Phoenix Metro area and has offices in Mesa and Chandler.

Teresa has been helping families and retirees reach their financial, tax, retirement planning, and estate planning goals for over 25 years. She is legally bound to uphold the highest level of fiduciary standards when providing investment advice to her clients.

Author of the book, S*he Retired Happily Ever After*, Teresa is committed to educating clients and assisting them in reaching their financial goals.

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