Posted on Tue,
Jan. 03, 2006

INVESTING GUIDE 2006: STRATEGIES THROUGH THE AGES

Managing your portfolio later in life

By Rick Jurgens
CONTRA COSTA TIMES

Joseph and Georgie Bonfigli, a pair of 66-year-olds who live in a tony Brentwood retirement community, have harvested some nice material rewards from life.

"I had a good job that paid quite well," says Joseph Bonfigli, a retired information technology executive for Blue Cross and a subsidiary. "I had the money to invest."

For older generations of the Bonfigli family, investing generally meant owning rental units. But Joseph Bonfigli " hated the idea of having to manage properties."

So the couple limited their real estate holdings to their family homes, and bought securities. Mostly, that worked fine. They sometimes doubled their targeted annual return of 15 percent for the portfolio of stocks and mutual funds they set up in the late 1980s. The Moraga house they bought for $40,000 in 1972 sold 12 years later for $250,000. They figure the Brentwood house they bought in 1999 for $280,000 is now worth more than $700,000.

But the road wasn't always smooth. "We learned a lot of life lessons along the way," Bonfigli says. "We made a lot of mistakes but we learned from our mistakes."

The couple says their biggest setback came when they were in their 40s, when they lost $150,000 due to poor timing in their handling of a 401(k) transfer. Another costly lesson was the loss of $50,000 in a limited partnership touted by a broker for a top-flight investment bank. The broker was "real personable, a nice guy," says Georgie Bonfigli.

But his advice wasn't so nice. The experience taught the couple to be wary even of reputable brokers. "They are just salesmen," says Joseph Bonfigli. "They make their money off commissions," adds Georgie Bonfigli.

After that setback, the Bonfiglis decided they didn't need a broker's help to lose money, and set out to craft their own investing strategy and goals, including retirement by age 55. They invested in stocks but mostly avoided the high-flying technology stocks that cost their son a bundle during the 2000 market downturn. By the time Joseph Bonfigli retired in 1997 -- two years after their target -- the couple had done well enough to afford a six month vacation in Europe.

At Joseph Bonfigli's retirement, the couple had 30 percent of their portfolio in bonds and 70 percent in stocks. When the market slumped, the couple flipped their portfolio ratio to 70 percent bonds and 30 percent stocks. When the market recovered, they bought value stocks and now have 60 percent of their assets in equities.

Earlier this year, the Bonfiglis stepped in to rescue their 84-year-old widowed aunt from the clutches of a salesman who had persuaded her to sell $400,000 in stocks and purchase an annuity. That transaction hit the aunt and her late husband with a $40,000 tax liability and locked up a big chunk of her assets in a financial contract with a 12 percent -- or $50,000 -- surrender charge.

Their aunt is "a really smart, savvy lady in most respects" but had a lot of "old world trust in people," Georgie Bonfigli says. The aunt turned to the couple for help after her husband died and the annuity salesman tried to persuade her to cash out the contract in order to buy another annuity.

The Bonfiglis talked a lot before making their own estate plan. Joseph Bonfigli considered "downloading stuff or maybe doing it ourselves." But he recalled that the probate of his late father's estate cost more than $6,000. A challenge, with his mother and sister, to the will of his late stepfather resulted in a legal battle that cost more than $20,000, although that tab was picked up by the other side, which lost, he says.

After the will battle, the Bonfiglis spent about $2,000 to have a lawyer draw up various documents including a living trust. "That's an investment there," Joseph Bonfigli says.

But the Bonfiglis' experience shows that some investments pay off in the long run.

And now Georgia Bonfigli sees a new goal for their investing: "I don't want anybody else being in control of my life."

PLANNERS ADVICE

Judith Bedell

"You planned, you saved, you succeeded. Now enjoy! Your financial plan is working!" Maintain a conservative portfolio dominated by bonds and dividend-rich stocks. Seek predictable returns. Bonds offer the investor a known outcome making budgeting easy. Take IRA distributions. Try to live on your dividends and interest while keeping your principal intact. Feel free to spend your capital gains. Consider gifting to children or grandchildren. The new maximum is $12,000 per child per year.

Be sure to unlock the equity in the house to supplement retirement income. Nowadays reverse mortgages are cleaner and better than ever. Review estate documents for changes in law, circumstances and desires. Communicate with your family on your estate plan, location of assets, documents, desires for long-term medical care. Avoid buying a new residence once you are 70. Consider renting if relocation is appropriate.

Damien Couture

Reduce your overall risk, but still keep a piece of your money in equities for the inflation-beating growth it will provide as well as the diversification benefits. There will be times when bonds and cash are not providing much of a return but equities are doing well. Check the titling on your accounts and other major assets. Proper titling can make a substantial difference in how your cost basis will "step up" upon the death of a spouse. This can save the survivor a lot of money.

A major pitfall to avoid is not taking your Required Minimum Distributions from your IRA and other qualified accounts.

John Valentine

The typical investment adviser sees 70-something investors as risk-averse. We recommend that these investors hold non-correlated investments to combat inflation, or worse, disinflation, and offset financial market declines. These include dividends from high-yielding equities such as utility companies. Bonds, and especially bond funds, are not recommended today. Please stay away from these when rates are rising. Do not avoid growth investments.

Sherman Doll

A big shift of 50 percent or more to fixed income is typically needed for those in their 70s in order to provide the cash flow for living expenses. Stick with high-quality bonds. If your projections show you have plenty of investments to sustain the balance of your life, assess your "need to take risk" and reduce your exposure to equities.

Harvey Rowen

You are now receiving social security and taking your Required Minimum Distributions out of your retirement accounts. You have moved from the accumulation phase of investing to the distribution phase. You may still be working or volunteering at something, but it is not all the time.

Your health may require that at some point you move into an assisted living situation or have home care.

The gathering place for Thanksgiving dinners and Passover celebrations has moved at some point from your house to the home of one or more of your children.

You may be in a financial situation where your entire investment portfolio is not needed to take care of you -- some of it will end up going to your beneficiaries and should be managed accordingly. You should make annual gifts to your children and grandchildren in order to lower the size of your taxable estate.

PORTFOLIOS
Judith Bedell

About 30 percent equities and 70 percent bonds. Undertake income investing. Buy the safest bonds only -- preferably tax free bonds.

Damien Couture

My recommended blend would be: 30% equities, 55% bonds, and 15% cash.

Libby Mihalka

5% Cash such as a money market fund, savings account or Certificate of Deposit

5% Short Term Bond Fund

35% Intermediate Corporate Bond Mutual Fund

5% Treasury Inflation Protection Securities

5% International Stock Mutual Fund

20% S&P 500 Mutual Fund

20% U.S. Large Cap Stock Value Fund

5% Commodity futures through a mutual fund

Harvey Rowen

Domestic equity 30%

International developed country equity 10%

Bonds 50%

Cash 10%

DID YOU KNOW

While living trusts can be used to distribute assets without the time and expense of probate, disputes among inheritors or errors in trust documents and execution can still end up in court with all the attendant delay and costs.

Sellers sometimes collect commissions as high as 15 percent for the sale of some complex financial products, such as variable annuities, so their interests may not align with yours.

REFERENCES

Web sites

AARP, a non-profit membership organization advocating for persons 50 and older: www.aarp.org/money/financial_planning

Berkeley-based Nolo Press home page includes a tab for "wills and estate planning" and, under the tab for "property and money," useful information about "social security and retirement": www.nolo.com

American Bar Association public information page on trust and probate law: www.abanet.org/rppt/public/home.html

Emeryville lawyer Janet Dobrovolny's estate planning web site: www.completetrusts.com

Books

Orman, Suze, "The Road to Wealth: A Comprehensive Guide to Money," Riverhead Trade, $18

Palermo, Michael, "AARP Crash Course: The Essential Guide to Wills, Trusts, and Your Personal Legacy," Sterling Publishing Co., $14.95

Clifford, Denis and Jordan, Cora, "Plan Your Estate," Nolo Press, $44.99

Other local resources:

John F. Kennedy University Law School Elder Law Clinic: 925-969-3356

Contra Costa Senior Legal Services: 510-374-3712

CHECKLIST

1. Read self-help books and visit web sites to help learn about general issues of asset management and estate planning for seniors, so that you are prepared with questions and information when you seek professional advice.

2. Consult with an accountant or financial adviser to develop a strategy to reposition your assets to reflect your desired return, tolerance for risk and other personal needs. Often, that means exchanging riskier stocks for safer bonds that generate a steady stream of income. Check out the tax consequences before you make moves.

3. Consult with a lawyer to develop an estate plan appropriate to your individual situation. Prepare a will and a power-of-attorney designating someone to make financial decisions if you should become incapacitated.

4. Consider the creation of a living trust as a strategy for avoiding probate. While not a substitute for competent legal, financial and tax advice for you and your heirs, a trust can sometimes be used to avoid the expense and delays of probate and to reduce tax liabilities.

5. Remember that complex problems rarely lend themselves to silver-bullet solutions. Sellers who enthusiastically promote such products as living trusts, annuities and reverse mortgages often collect rich commissions, and may not have your best interests at heart. Don't be afraid to seek professional help but seek referrals from someone you trust, check the credentials of the professionals you approach and do not rely too much on advertisements or appearances.

The portfolios that assumed no further adjustments tended to beat the returns of the actual portfolios, which reflected the fund managersâ€™ trading activity. In other words, the funds would have performed better had the managers stood pat rather than trading. Investors should take that finding to heart when they manage their own portfolios, too. While some investors swear by frequent monitoring and rebalancing tweaks, Iâ€™ll take a policy of benign neglect any old day. There are many good reasons to be hands-off.Â Last and definitely not least, there may be periods in your life when youâ€™re unwilling or unable to spend much time on your portfolio, because of time constraints or, perhaps later in life, health considerations.