

Five Essential Investment Strategies for Wealth Preservation

Anyone planning for retirement faces two distinct challenges: accumulating wealth and preserving wealth. If you are fortunate enough to have built a nice nest egg that has you on track for retirement, it's essential that you know investment strategies designed to preserve that nest egg into your golden years.

When President Franklin D. Roosevelt signed the Social Security Act in 1935, the average life expectancy in America was roughly 60 years.¹ Therefore, many people either didn't need Social Security benefits at all, or they didn't need them for very long. As life expectancies have increased in the 90 years since – it currently sits at 78 years – people living into their 80s and 90s is now a common occurrence.¹ This means that many people are collecting Social Security benefits for 20 years or more. A byproduct of increased longevity is the very real risk of a person outliving their savings. Therefore, wealth preservation becomes a vital strategy that is too often overlooked.

Below are some tips that may help you preserve the wealth you have accumulated:

Create a Long-Term Financial Plan

Life is notorious for throwing curveballs, so it is wise to have a robust financial plan in place so that you are prepared to deal with a variety of contingencies, both now and into the future. What steps comprise a solid financial plan? You should:

- List your financial goals.
- Create a budget.
- Establish an emergency fund.
- Choose investments for the future.
- Review your plan at least annually and revise as needed.

Through Stifel's financial planning resources, a Stifel Financial Advisor can assist you in developing a customized financial plan that will help you better understand your goals and how to pursue them. Your plan may also help you to determine the appropriate level of investment risk and liquidity that are necessary to have the opportunity to achieve your goals at your desired timeframes.

Diversify Your Investment Portfolio

The old adage, "Don't put all your eggs in one basket" may sound like a tired cliché, but when it comes to investing, that worn out, antiquated phrase should be your guiding light. Having an investment portfolio that comprises a wide array of asset classes – stocks, bonds, cash, and even alternative investments, where appropriate – can play an important role in risk management strategies.

Diversifying your investments allows your portfolio to account not only for fluctuations in the market as it relates to the broad categories of stocks versus bonds versus alternatives, but also as it relates to the sectors, classes, and industries where the investments are exposed. You should review your portfolio on a regular basis and particularly whenever significant events take place, such as major market fluctuations, economic events, or personal life changes that may impact both the value of your investments as well as the need for liquidity.

Tax Planning and Optimization

Efficient tax planning is pivotal in preserving wealth and assuring that investors maintain as much after-tax returns as possible. This is where a Roth IRA, which allows funds to be withdrawn tax free at retirement, subject to limitations, may become an important investment vehicle.

Utilizing efficient tax planning strategies, such as maximizing deductions, using tax-deferred investment vehicles and accounts, and passing assets to intended recipients in the most tax-efficient method possible, may help you preserve your wealth. Tax planning is an ongoing process that should be reviewed annually at a minimum.

Mitigate Risk With Insurance

Building wealth is one thing; holding on to it is another. There are some risks in life that, while unlikely to occur, can be financially devastating. This is why purchasing insurance policies such as life, disability, or long-term care is vitally important.

Many investors fail to perceive the significant difference in the overall total of the premium expenses paid versus the total amount that their portfolio may be depleted if premature death, a disability that keeps them from employment, or the need for long-term care support were to take place. Risk management through insurance is a major piece of maintaining a holistic financial plan and may play a pivotal role in preserving investor wealth.

Estate Planning

When many people hear the word “estate” they immediately think it only applies to millionaires and billionaires. This is a misconception. While extremely wealthy people typically have a more complicated financial picture, estate planning is essential for all investors, regardless of their wealth.

Some measure of asset protection may be accomplished via account type and titling, and it may help to protect investors from potential creditors, lawsuits, and unforeseen liabilities that could potentially impact their assets. Estate planning via vehicles such as wills and trusts, and even techniques as simple as designating account beneficiaries, can also help safeguard an investor’s wealth to assure that the distribution of their assets allows for more of their wealth to reach their desired recipients.

Effective estate planning may allow you to avoid probate, creditors, and the courts, and that should be a goal for all investors.

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¹Statista, “Life expectancy (from birth) in the United States, from 1860 to 2020”

Diversification and asset allocation do not ensure a profit or protect against loss. Alternative investments involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing tax information, are not subject to the same regulatory requirements as more traditional investments, and often charge high fees, which may erode performance. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. Stifel does not provide legal or tax advice. You should consult with your legal and tax advisors regarding your particular situation.