Means are there, want to find way

Money Manager/by Karin Price Mueller
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When you spend most of your life accumulating assets, it can be easy to lose track of your money. One 401(k) here, an IRA there, change jobs and get a new 401(k) - the number of accounts can besiege any investor.

That's what concerns Charlie and Eve, a retired southern New Hampshire couple who came to the Herald for help in making sure their money is working for them as hard as possible. They've accumulated many separate portfolios, and they want to make sure they're on the right track for a comfortable retirement.

``More or less we want to know if we can make more money from investments than we're making,'' says Charlie, 63, a former software engineer who retired last November.

Instead of using their investments to pay the bills, Charlie and Eve, whose names have been changed, have other sources of income. Charlie receives $16,200 a year from Social Security and $20,160 from a pension. Eve also receives a pension worth $19,416 annually. And together, the couple receives dividends from their investments worth about $6,500 a year.

This income pays the couple's regular bills, but they also want to afford some travel.

``We like to go to Vegas once or twice a year,'' says Charlie, who fancies the Keno slot machines. ``We'd also like to take a trip to Europe each year, and spend the winter months in Florida.''

Which is where the couple is now, renting for the months of January, February and March.

Affording the travel and snowbird lifestyle will depend somewhat on their investment portfolio.

Charlie has three different 401(k) plans from previous employers. Two of them, worth $85,323 and $74,000, respectively, are invested with Fidelity. The third plan, worth $36,087, is invested in funds such as Vanguard Windsor and an index fund.

Eve, 63, a former program analyst, also has a 457 plan worth $26,350. The account is primarily invested in a common stock fund and a fixed income fund.

The couple also has individual retirement accounts. Eve's IRA is worth $7,234. Charlie's IRA is worth $6,067. Both are invested with Fidelity. Charlie has two more IRA accounts, both invested in a money market fund at a credit union, which are worth $11,569 and $12,344.

The couple holds some non-retirement assets, too. They have a Fidelity mutual fund account worth $49,000, invested in such funds as Fidelity Asset Growth and Fidelity Real Estate. Another mutual fund account, worth $52,300, is invested with the American Century family of funds.

Charlie and Eve have also built a portfolio of individual stocks totaling $344,619. They have stock certificates for companies, including Verizon and Honeywell, and they also have a brokerage account that holds companies, including Lockheed Martin, Gillette and Citigroup.

``I'm a gambler and I look for opportunities,'' says Charlie, who is considering buying EMC. But, Charlie admits, the problem is deciding when to sell.

``So far we have never sold a stock,'' he says. ``When we buy them, we just hold on to them.''

For cash accounts, they have $10,600 in checking accounts, $42,424 in money market accounts and certificates of deposit worth $92,613. They also have $42,000 worth of savings bonds.

So the couple wants their portfolio in order so they can enjoy the things they love - such as winters in Florida.

``It's nice down here,'' Charlie boasts. ``It's 80 degrees and we're walking around in shorts and T-shirts. I don't want the snow anymore.''

Solution

Consolidation of holdings will restore financial order

Charlie and Eve are poised to have all the things they dream of for their retirement. The catch: keeping track of where all the investments are and where they're going.

``Their financial life seems to be a little complicated with too many accounts and too many holdings in each account,'' says Chris Dalto, a certified financial planner with Delessert Financial Services of Newton. ``I'd like to see them consolidate.''

Before moving any accounts, Dalto says the couple needs to take a look at their target asset allocation. A target asset allocation depends on risk tolerance and the goals for the portfolio, Dalto says. Because Charlie and Eve say they want some growth, Dalto says a 50 percent equity allocation should suit their needs.

With all the holdings, ``They didn't really have a feel for what percentage the equity allocation was,'' Dalto says. ``It was close to 60 percent.''

Charlie and Eve are living within their means, with the pensions and Social Security covering their expenses. And with the 50-50 asset allocation, they'll have plenty of cash on hand to cover emergency expenses. Dalto recommends the couple put aside one year's worth of living expenses in a separate emergency fund of money markets and short-term certificates of deposit to cover emergencies.

Next, Charlie and Eve need to simplify their financial lives - made up of 13 different accounts, with more than 35 mutual funds and individual stocks. Dalto suggests the couple start with Charlie's three 401(k) plans, consolidating the accounts into one rollover IRA.

``Not only the convenience of having all of these accounts consolidated, but additionally, there are usually more investment options (in an IRA) than in one's 401(k),'' Dalto says.

Because two of the 401(k)s are invested at Fidelity, and the couple has mostly Fidelity funds in their portfolio, Dalto recommends the couple open the rollover IRA there.

Then, the couple should consider reducing the number of positions in their portfolio.

``Currently they have approximately 19 mutual funds, including five large-blend funds and four large-growth funds,'' Dalto says. ``This is overkill.''

The couple's lives would be easier if they limit their fund holdings to no more than eight to 10 funds. If they stay in Fidelity, Dalto recommends Fidelity Dividend Growth and Fidelity Growth Company as core holdings, and then Fidelity Mid Cap Stock, Fidelity Low Priced Stock, Fidelity Diversified International, Fidelity Intermediate-Term Bond to diversify the portfolio.

The individual stocks in the couple's portfolio are another challenge to tackle. Dalto says over the past few years, many investors have found that stocks that they considered ``safe'' and ``buy and hold'' stocks have been beaten up very badly. Companies, such as AT&T and Eastman Kodak, that were staples in retirees' portfolios because of their safety and the income they provided, have fallen on hard times and have seriously affected many retirees' financial stability.

Dalto says, like many other investors, Charlie and Eve have struggled with the decision of when to sell their stocks and, as a result, they have watched some holdings lose more than 70 percent of their value. To limit such losses Dalto says a portfolio of individual stocks needs to be watched closely - something for which the couple doesn't have a passion.

``I don't want them to sell them across the board, but they should start following the companies on at least a quarterly or semi-annually basis and follow news events,'' Dalto says. ``If they're not interested in doing that I'd rather see them sell the positions and invest in mutual funds.''

If they do keep some of their individual stocks, Dalto says the couple should turn in the stock certificates in their possession and add the holdings to one of their brokerage accounts. The move won't cost anything, and it will help the couple with record keeping.

If they make these moves to consolidate their holdings and make their money lives easier, Dalto says the couple should be able to enjoy their retirement.

``They're in great shape,'' he says. ``They will be using their portfolio for one-time expenses, emergencies and growth. It's a nice position to be in.''