Karen Telleen-Lawton: Stocks vs. ‘All Cash’ Investment Strategy

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 03.25.2013 9:29 p.m.

[Note: The following column on financial fortitude is one installment in a continuing series.]

Examining your finances takes fortitude. What are your goals and dreams? What can you afford? Here are more questions I’ve heard in my financial advising practice:

Dear Karen: We both recently retired (age 65). My husband is thrilled about the change, but I’m anxious. Three of our parents are still alive, so we could be around a long time. I want to keep our investments mostly in cash to make sure we don’t lose them; he wants to be almost 100 percent invested so the pot keeps growing. Who’s right?

A: The answer is in the middle: not as a compromise, but as a strategy.

To see why, let’s look first at the “all cash” strategy. The thing that’s certain — besides death and taxes — is that cash loses spending value in the long run. We’ve been in a low-inflation environment for quite awhile, but in the 30-plus-year retirement for which you need to plan, inflation will likely average 3.4 percent annually. That’s the 100-year average. So let’s say you’ve determined you can get by spending $70,000 per year now. In 30 years, you will need to spend more than $138,000 to buy that same quantity of goods, given average inflation.

On the other hand, let’s say you’re totally invested in the stock market. For your monthly spending, as well as some unexpected emergency or an anniversary holiday, you’ll need to dip into your investments. If you have no cash cushion, you risk having to sell at an inconvenient time. It’s always good to have some money — say three to six months of expenses — in an emergency cash fund. That provides liquidity so your investment decisions can be somewhat separate from your cash-flow decisions.

Investments (generally stocks and bonds) are the best place for funds that you don't need over the next business cycle. Your allocation among stocks, bonds and cash depends on how much money you have, how much you need to live on, your joint risk aversions and whether you'd like to leave an inheritance. If you run the numbers with a fee-only financial advisor, she or he can help you determine how much you need to be invested for your situation.

Dear Karen: My wife and I have been married for 25 years. Before that, she was widowed with a 10-year-old daughter.

We combined our assets from the beginning. Despite this, my stepdaughter thinks she's going to get everything in our house when we die. Could some of our "stuff" really be hers? I don't want to ask my wife and pick a fight.

A: It sounds like this is already a sensitive subject, so remember that it is, as you call it, just "stuff." Be guided by kindness and generosity as you think about who "should" get heirlooms or personal keepsakes.

Legally, who owns what depends on your wife's first husband's will, the state in which they resided and how all items are currently titled. If he died without a will or living trust in a community property state, she would typically inherit items acquired during their marriage plus a share of any separately held assets. In other states, barring a will or trust, she would inherit half the assets, with the rest divided among their children. There are lots of exceptions, so there aren't many generalizations that can be made beyond this.

It is important that you and your wife have wills, and possibly trusts. In the process of organizing your estates, issues will be sorted out in the appropriate context.

When you and your wife have a common set of facts, discuss your decisions jointly with her daughter to avoid misunderstandings.

— Karen Telleen-Lawton's column is a mélange of observations spanning sustainability from the environment to finance, economics and justice issues. She is a fee-only financial advisor (www.DecisivePath.com) and a freelance writer (www.CanyonVoices.com). Click here to read previous columns. The opinions expressed are her own.