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What are the top three retirement-investment risks you should be managing?

BY BOB TABOR

WHAT MAKES A GOOD WEALTH ADVISOR…

A good wealth advisor has the passion to help others achieve their financial goals and the expertise to deliver the service in a holistic manner.

RICHARD P. SLAUGHTER ASSOCIATES INC. | 13809 Research Boulevard, Suite 905, Austin, TX 78750 | 512.918.0000

FEATURED ADVISOR
Bob Tabor, AWMA®, AIF®, Vice President

ASSETS UNDER MANAGEMENT
$400 million (as of 5/15)

LARGEST CLIENT NET WORTH
Confidential

MINIMUM FEE FOR INITIAL MEETING
None required

MINIMUM ASSET REQUIREMENT
$500,000 (investment services)

COMPENSATION METHOD
Asset-based and hourly fees

PROFESSIONAL SERVICES PROVIDED
Planning, investment-advisory and money-management services; 3(38) fiduciary advisor

PRIMARY CUSTODIANS FOR INVESTOR ASSETS
Charles Schwab & Co. and TD Ameritrade

ASSOCIATION MEMBERSHIPS
Financial Planning Association, The National Association of Personal Financial Advisors, CFA Society of Austin, CFA Institute

EMAIL
bob@slaughterinvest.com

WEBSITE
www.slaughterinvest.com

ILLUSTRATION BY KEVIN SPROULS

Successful wealth management involves a variety of priorities. As your assets accrue, you and your advisor must consider issues such as wealth accumulation, diversification, growth strategies and tax management. The level of priority you assign to each of these issues depends on where you are in your life. However, overall risk management is too often overlooked.

Risk management is especially important as you near retirement, the time when you will be dependent on your assets to support your lifestyle needs. Protecting your wealth from risks should make its way to the top of your priority list.

The three risks that deserve particular scrutiny at this time in your life are cash-flow volatility, risk of substantial loss and purchase-power erosion through inflation.

1. CASH-FLOW VOLATILITY

Since you and your wealth manager have likely already mapped out your financial life through a comprehensive plan, you understand how much you will rely on your investment portfolio to produce the cash flow, or income, necessary to meet your financial obligations and support the lifestyle you envision.

Proper diversification can help protect the consistency of your cash flow by spreading out risk. You may be tempted to over-weight your investments in higher-yielding investments. However, since these investments often have higher rates of payment defaults, over-weighting can put your cash flow at risk.

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Also, be aware of the expiration of some income instruments and be prepared to replace that cash flow.

Spreading your risk among different investment types and time frames can help preserve the cash flow you need.

2. RISK OF SUBSTANTIAL LOSS

Most investment strategies include an allocation of higher-risk vehicles. They provide growth opportunities and are an important part of a well-rounded portfolio designed to meet long-term needs.

You may want the growth to be derived from stocks, real estate or other alternative sources that have varying degrees of risk and volatility, and cycle in unique orbits.

However, while growth investments can provide benefits in meeting your goals, they often carry higher risks of substantial loss. When you are dependent on your assets to support your lifestyle needs, you should not allow a substantial loss event to force a change in your plans. Do not invest more than you are able and willing to lose in one particular investment.

Also, be aware of how diversified you are with respect to investment types. If you have stock investments, spread your money out among different sectors, regions and investment styles. If investing in real estate, look to deploy your assets in multiple regions and real estate types.

Alternative strategies can also be very beneficial, if you invest in strategies that complement one another and you don't duplicate efforts.

3. PURCHASE-POWER EROSION

Be sure to consider the effects of increasing costs of goods and services on your retirement plan. Inflation, even at low rates, can have a major impact on the purchasing power of your cash flow over time.

Make sure your investments have the ability to keep up with inflation. There are opportunities available in fixed-income instruments, such as Treasury inflation-protected securities, as well as in stocks and real estate.

Staggering the maturity dates of your fixed-income investments is also a good strategy to protect against inflation. And, as interest rates increase, you should have some cash available to take advantage of higher yields.

Those with substantial wealth face a myriad of risk issues that should be addressed in order to design a healthy plan. Your advisor can help mitigate the three risks discussed here, as well as offer guidance on other important issues, like insurance-, tax- and estate-planning, so that you have the greatest chance of reaching your goals. ●

ABOUT US

BOB TABOR JOINED RICHARD P. SLAUGHTER ASSOCIATES IN 1998 AND SERVES AS VICE PRESIDENT. With two decades of investment and banking experience, he is a member of the Slaughter Associates Investment Committee and leads client services, business development and Slaughter 401(k) services. Bob is an industry-recognized leader in investor psychology and client services. His expertise in utilizing collaborative professional relationships for the benefit of common clients has shown direct results for Slaughter Associates' client base. Bob has been named a 5-star wealth manager every year since 2010. ●

Bob Tabor, AWMA®, AIF®
Vice President

Richard P. Slaughter Associates Inc.
13809 Research Boulevard, Suite 905
Austin, TX 78750
Tel. 512.918.0000

bob@slaughterinvest.com
www.slaughterinvest.com
www.rpsplanadvisors.com

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