



12.03.25 | FINANCIAL LITERACY

How Much Risk Should You Take in Pre-Retirement? (Video)

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From the bucketing approach to rebalancing, Grimes & Company Financial Advisor Jay Barrett lays out practical and time-tested strategies for approaching retirement with the right amount of risk to help you achieve your goals.

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VIDEO TRANSCRIPTION:

Good afternoon, my name is Jay Barrett and I'm a financial advisor here at Grimes and Company. Today we're going to be talking about a pre-retirement portfolio, putting the landing gear down as we come into retirement and trying to address the question of how much risk should we still take?

Here's something that, you know, most people don't think about. Even after you retire, your money still needs to work for you for decades. Everybody understands that they work for their money and then their money needs to work for them. If you retire at 65, you could easily have 25 or 30 years ahead of you. It's a very, very long runway for inflation to slowly chip away at your purchasing power, your standard of living. I took a look at this just to put this into a little bit of perspective.

When my folks, my parents retired, a gallon of milk cost \$1.25. Today it's about four bucks. That's the silent risk. Your money loses the buying power if it doesn't keep growing. So while of course it might very well feel safer to move everything into CDs, bonds, cash, money markets, that safety can actually cost you in the long run.

You need some exposure to growth, not because you want to take on unnecessary risk, but because it helps your income keep up with real life over time. One way that we have of doing this is simply by just figuring out as the starting point, what's the least amount of risk that we need to take in order for an investor to achieve their goals and then go from there within the confines of the financial plan.

One approach that I've used with many clients is the bucketing approach. We've used that with some folks. You divide your retirement savings into different buckets. One for short term income, one for stability and one for longer term growth. That way, when you do have one of those periods of dislocation, the market dips, drops, declines, you're not forced to sell your long-term investments at a loss. You're not backed into a corner liquidating, selling more shares at a declining price. That's the number one thing that we seek to prevent and work to protect against is becoming that forced seller.

Another key piece is, rebalancing keeps your portfolio aligned with your goals, not necessarily with the latest market trend or headline.

One client that I work with, there were about 90% in stocks when they first came to me. They were about five years away from retiring and they were starting to feel uncomfortable with all of the volatility. We did not flip a switch overnight.

For these clients, we built a plan that slowly rebalanced them to around a 60-40 mix. We ultimately moved that up about 10% to 70/30 during the period of time, you know, that we went through post-COVID during 2022. But the point is it was enough stability to give them peace of mind and enough growth to keep their income nice and strong over the course of the next 20 years.

The biggest risk can often times be reacting emotionally to shorter term swings instead of following your plan. The goal is certainly not zero risk. It's the right amount of risk, enough to protect your retirement income today, but still give your money the chance to grow for you down the road. You you've worked hard, too hard to let fear or guesswork run or ruin your retirement. The key is having a plan that ties it all together. Goals, investments, income needs. If you're within five, 10 years of retirement and wondering whether your portfolio is balanced the right way, it's the perfect time to take a fresh look.

My name is Jay Barrett and my financial advisor here at Grimes and Company. For more information, please visit grimesco.com.

I appreciate the time and attention as always.

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