Investing Mistakes to Avoid When Retirement is Just Around the Corner

By Donna Fuscaldo / Published July 29, 2013 / FOXBusiness

Saving for retirement is complicated, and investing mistakes are common. But when retirement is just around the corner, a blunder could be disastrous on a nest egg.

There's no guarantee when playing the stock market, but there are common mistakes consumers can steer clear of to better protect their retirement fund.

"The more important it is, the more mistakes people seem to make," says Kevin Luss, owner of financial services company The Luss Group. "People have been making the same mistakes for eons."

While history seems to repeat itself when it comes to investor mistakes, it's never too late to break the cycle. Here are five common investing snafus experts warn to avoid when retirement is in reach:

Mistake No. 1: Taking On Too Much Risk

Your portfolio can stand a sizeable amount of risk when you're investing in your 30s, 40s and even 50s, because there is time to recoup any losses, but when retirement is less than a decade away, it's time to rein in the risk.

"Many people retired or preparing to retire have the allocation of a 25 year old," says Luss. "You can't have a 65-year-old with an allocation that is so aggressive and geared toward growth."

As retirement nears, Luss recommends moving away from an aggressive and growth-oriented strategy to a more preserve-and-hold investment approach.

Mistake No. 2: Trying to Match or Beat an Index

Most people compare their portfolio to a specific index, typically the S&P 500 and panic if the benchmark is outperforming their portfolio. To counter, they take on more risk or reallocate their holdings and ultimately end up losing more than if they had reserved their approach.

"For those nearing retirement or in retirement, what the S&P is doing shouldn't have an impact on the success of their own financial plan," says Laura Stover, owner of Laura H. Stover Financial Group. "Investors are better off being benchmark agnostic."

Stover recommends investors take a total returns approach when investing, which will eliminate the need to chase the market or worry if the portfolio is under performing specific indices.

Mistake No. 3: Being Too Conservative

It's all about finding balance with your investing strategy. You don't want to be too risky with your investments as you prepare to leave the workforce, but you also want to grow your money.

"Being too conservative is even more prevalent than being too risky," says Luss. "The hardest part is often getting somebody who is very conservative to take a little risk." He says even the most conservative investors need to at least work to stay ahead of the rate of inflation.

Mistake No. 4: Not Creating a Realistic Plan

Don't stay too focused on checking the balance of your 401(k) and other investments and forget to calculate how much you will actually need in retirement.

"The biggest mistake most people make is they don't have a clear idea of the income they will need to have in retirement," says John Gajkowski, at certified financial planner at Money Managers Financial Group. "They don't know what the required expenses will be. They have no idea how to generate income to meet the expenses."

To come up with an estimated amount needed for retirement, Gajkowski suggests making a list what you want to do in retirement and then work with economic models to get a total amount.

Mistake No. 5: Never Changing Investment Philosophy

As you get closer to retirement, you have to change your mind set when it comes to portfolio management. Stover recommends diversifying with different asset classes and investment vehicles that have little or no correlation to each other.

"You can't continue to invest the same way," says Stover. "You need to account for cash flow and income."