



The Ever-Present Duo: Wealth Creation and Preservation

Key Takeaways:

- **Both Objectives Are Constant:** Wealth creation and preservation are always present financial goals, with their emphasis shifting across life stages.
- **Horizon Investing Balances Both:** Using short-, mid-, and long-term portfolio segments allows for a strategic balance of wealth creation and preservation at all times.
- **Imbalance Is Risky:** Neglecting either wealth creation or preservation leads to significant financial vulnerabilities, like market exposure or inflation erosion.

In the intricate world of finance, the twin pillars of wealth creation and wealth preservation stand as perpetual objectives, their relative importance merely ebb and flow with an individual's life stage, but never truly disappear.

From the ambitious graduate entering the workforce to the seasoned retiree enjoying their golden years, the pursuit of financial well-being remains a constant, adapting its form to suit evolving needs and circumstances. A powerful framework for navigating this journey is horizon-based investing, which segments a portfolio into short-, mid-, and long-term components, ensuring that both wealth creation and wealth preservation are always "on," with only their weighting shifting to align with an investor's life stage.

UNDERSTANDING THE CORE OBJECTIVES

Wealth Creation: This refers to the process of increasing one's assets or net worth over time through various investment strategies, income generation, and capital appreciation. The primary goal is to grow the size of one's financial resources.

Wealth Preservation: This objective focus-es on protecting existing assets and maintaining their value against erosion from inflation, market downturns, taxes, and other financial risks. The emphasis is on safeguarding capital and ensuring its longevity.

HORIZON-BASED INVESTING: A UNIVERSAL STRUCTURE

Horizon-based investing segments an investor's portfolio into distinct time horizons, each with a tailored strategy that inherently balances wealth creation and wealth preservation:

- **Short-Term Horizon (0-3 years):** This segment typically holds highly liquid assets for immediate needs, emergency funds, or known near-term expenses. The objective here is overwhelmingly wealth preservation, with a strong emphasis on capital safety and accessibility.
- **Mid-Term Horizon (3-7 years):** This segment is for financial goals within the next several years, such as a down payment on a house, college tuition, or a significant purchase. It involves a more balanced approach, incorporating elements of both wealth creation and preservation.
- **Long-Term Horizon (7+ years):** This segment is dedicated to distant goals like retirement. Its primary focus is on wealth creation through growth-oriented assets, with preservation becoming increasingly important as the investor approaches the long-term goal.

THE DYNAMIC DUO ACROSS LIFE STAGES

The beauty of horizon-based investing is its adaptability, allowing the emphasis on wealth creation or preservation to shift seamlessly with an investor's life stage, while ensuring exposure to both objectives at all times.

Early Career: Driving Long-Term Wealth Creation

In your early years (20s to 30s), your long-term horizon dominates, heavily focused on wealth creation. You'll take on more risk with growth-oriented investments like stocks, benefiting from compounding over decades. While a short-term preservation component (emergency fund) is vital, the primary aim is aggressive capital accumulation.

Mid-Career: Balancing Growth and Protection

As you reach mid-career (40s to early 60s), your mid-term horizon becomes more prominent. You'll still pursue wealth creation for long-term goals, but you'll also prioritize preservation as your assets grow. Your portfolio will likely be more balanced, aiming for growth while safeguarding against significant losses, especially for upcoming goals like college tuition.

Retirement: Prioritizing Preservation with Strategic Growth

In retirement (60s+), wealth preservation becomes the dominant objective across all horizons. Your short-term funds cover immediate living expenses, with maximum safety. Mid-term funds provide stable income. Even your long-term segment shifts its focus: it's about preserving capital to last your lifetime and beat inflation, rather than aggressive growth.

THE DANGERS OF AN IMBALANCED FOCUS

What would happen if an investor pursued only wealth creation or only wealth preservation? The consequences highlight why both objectives, balanced through horizon-based investing, are indispensable:

Consequences of Only Wealth Creation:

- **Vulnerability to Market Shocks:** An exclusive focus on growth-oriented, high-risk assets leaves an investor completely exposed to market downturns. A significant market crash could wipe out substantial portions of wealth, with no protected reserves to fall back on.
- **Lack of Liquidity for Emergencies:** Without a dedicated short-term preservation component, unexpected expenses (medical emergencies, job loss) would necessitate selling growth assets, potentially at a loss, or incurring high-interest debt.
- **Failure to Meet Short-Term Needs:** Goals like a home down payment or college tuition, which require a specific amount by a certain date, would be jeopardized if all funds are in volatile, long-term growth investments.
- **Stress and Emotional Decisions:** High volatility with no safety net can lead to panic selling during market drops, locking in losses and derailing long-term plans.

Consequences of Only Wealth Preservation:

- **Erosion by Inflation:** While preserving the nominal value, a portfolio focused solely on cash, CDs, or very low-yield bonds will lose purchasing power over time due to inflation. What seems like \$1,000,000 today might only buy what \$500,000 bought two decades ago.
Missed Growth Opportunities: Limiting investments to ultra-safe, low-return options means foregoing the significant compounding power of equities and other growth assets over the long term. This can severely limit one's ability to achieve financial independence or a comfortable retirement.
- **Insufficient Funds for Retirement:** For a young investor, focusing purely on preservation would result in a portfolio that simply doesn't grow enough to fund a multi-decade retirement. The capital might be "preserved," but it would be insufficient.
- **Stagnant Wealth:** While "safe," such a strategy would lead to stagnant wealth, unable to keep pace with rising costs of living or unforeseen future needs.

CONCLUSION

Regardless of where an individual stands on this continuum, the fundamental principles of sound financial management remain unwavering. Diversification across different asset classes, regular review and rebalancing of investment strategies, prudent risk assessment tailored to one's individual circumstances, and understanding one's financial goals are timeless tenets.

Horizon-based investing provides the ideal structure to integrate these principles, ensuring that the aggressive pursuit of new wealth and the conservative stance aimed at protecting existing assets are always simultaneously addressed, with their relative weighting adapting to the evolving chapters of life.

Disclaimer: This article is intended for informational purposes only and should not be construed as legal or financial advice. It is imperative to consult with qualified professionals to address your specific needs and circumstances.



We'd Love to Hear from You!

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