

Investing During Retirement

Investing *during* your retirement years is different than investing *for* retirement. In retirement, your investment priority may shift from asset growth to income production. Losses are a greater concern because you no longer have earned income you can save to help make up those losses. And you have less time for your investments to recover from market downturns. So you need to take a different approach to investing than you did during your working days.

Review Your Investments for Risk and Return

When you first retire — and periodically throughout retirement — you should review the allocation of your investment portfolio as a whole, including all of your retirement plan, IRA, and other invested assets. As part of these periodic reviews, consider the level of risk your current portfolio carries. Make sure that your asset allocation is appropriate for your personal situation.

Remember, all investments involve risk — in varying degrees. Generally, stocks are considered riskier than bonds, which are considered riskier than cash equivalents (certificates of deposit, U.S. Treasury bills, and similar short-term securities). The greater an investment's risk, the greater its potential return.

Ask yourself how much risk you can afford to take at this point in your retirement. If you've been retired a while, your current risk tolerance may be different than it was when you first retired and different than it will be later on. If you have a substantial portfolio, you may be able to accept more risk than someone with very limited assets who has more to lose in terms of financial security.

Also review your savings withdrawal needs. One of the biggest mistakes a new retiree can make is to withdraw too much too soon. Consider that if you withdraw 10% of the initial account balance each year from an investment portfolio earning an average annual return of 5%, you'll deplete your savings in 15 years. If you withdraw only 5% from the portfolio, your savings will last indefinitely because you won't deplete any of your principal. You need to balance your return expectations and tolerance for risk against your income needs.

Focus on Income

Investing in fixed income and cash equivalent investments can provide you with a steady stream of income to supplement regular income you may receive from Social Security and pension plans. You can choose from:

- Bonds or bond funds¹
- U.S. Treasury bills
- Money market funds²
- Certificates of deposit (CDs)³
- Bank savings accounts
- Annuities⁴
- Dividend-paying stocks⁵

It's best to use a variety of investments, rather than one investment type or one fund. Why? Investing in multiple investments can help soften the impact of unfavorable interest rate and price changes. When interest rates fall, newly issued bonds and CDs pay a lower rate of interest than older ones. Consequently, the values of older bonds with higher rates increase. The opposite happens when interest rates go up. The yields you receive on money market funds and deposit accounts also fluctuate with interest rate changes.

Bond funds. Investing in bond mutual funds¹ can help you take advantage of interest rate changes. Fund managers buy and sell individual bonds as needed to pursue their funds' objectives and seek better returns. Managers also buy bonds with different maturities in an effort to increase returns and provide more consistent income.

continued

Your full-color imprint here.



ABC Company
123 Main Street
Anywhere, USA 12345
www.sampleabccompany.com
1-800-123-4567

Laddering. Another strategy to generate more consistent income is to “ladder” your bond and CD investments so that they don’t all come due at the same time. With laddering, you buy multiple bonds and CDs with staggered terms. When an investment matures, you reinvest the principal at the longest term of your ladder. That way, you can take advantage of any increases in interest rates and avoid a sudden, across-the-board decrease in your bond and CD income when interest rates drop.

You will also have greater liquidity if you always have a bond or CD that’s near maturity. Laddering may help you avoid potential losses or penalties that could arise if you had to sell a bond or cash in a CD early to meet your cash flow needs.

Annuities. For a more consistent income from your investments, you may want to consider purchasing an immediate annuity. An annuity is a contract between you and an insurance company. The company promises to make periodic payments to you in return for the premium you agree to pay. With an immediate annuity, you start receiving payments right away. Investing a portion of your retirement assets in an annuity gives you a regular income, while allowing you to retain some of your savings to invest elsewhere.

Leave Room for Growth

Over the years you are retired, even modest inflation could significantly increase your income requirements. To keep pace and to meet potentially higher health care costs later in retirement, you should consider investing some of your retirement assets for growth. Generally, that means including stocks⁵ in your portfolio. While past performance is no guarantee of future returns, historically stocks have outpaced inflation by the widest margin compared to other asset classes and produced the highest long-term returns.

Set Your Asset Allocation

Once you’ve assessed your tolerance for risk and determined your optimal asset allocation, you should review your current allocation to see how closely it matches the portfolio that is appropriate for your situation, including your income and growth needs. If your current allocation is off significantly or doesn’t address those needs, you probably should change your allocation. You don’t have to make the changes all at once. In fact, gradual change is usually a better way to go.

Let’s say you determine that you should have more of your assets in fixed income investments. You might move a certain percentage of your stock investments into fixed income investments each quarter until you achieve the allocation you want. Once you’re happy with your investment mix, periodically reassess it to make sure it’s still in line with your risk tolerance and income requirements. Many professional advisors recommend that you review your asset allocation and make any necessary changes at least annually, but not more than quarterly.

Your professional advisor can help you assess your risk tolerance and review your asset allocation to help make sure your retirement portfolio is right for you.

¹ Prices of fixed income securities may fluctuate due to interest rate changes. Investors may lose money if bonds are sold before maturity. You should consider a mutual fund’s investment objectives, charges, expenses, and risks carefully before you invest. The fund’s prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

² An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

³ Bank CDs are insured and offer a fixed rate of return, whereas both principal and yield of securities will fluctuate with changes in market conditions.

⁴ An annuity may impose charges, including but not limited to surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, and feature charges that can reduce the value of your account and the return on your investment. You will have to pay federal income tax on any earnings you withdraw from the annuity during retirement or before. Payments and guarantees are subject to the claims-paying ability of the issuing insurance company and the underlying investment options are subject to market risk and may lose value.

⁵ Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money.

To order this SmartSheet for your clients and prospects, please contact:



15 Corporate Circle, Albany, NY 12203
800-525-4237 • Fax 518-862-3355
www.newkirk.com • info@newkirk.com

This publication is not to be considered legal, accounting, tax, or investment advice. The information is general in nature and may or may not be appropriate to you. Before applying anything you read to your personal or business situation, you should seek professional advice.

This publication is an advertisement prepared by NPI for the use of the sender. The sender and NPI are unrelated companies. The content is not written or produced by the sender.