AAII Local Chapters

Westside Financial Planning Subgroup - April 4, 2022

https://www.kiplinger.com/retirement/retirement-planning/604477/6-investment-tips-that-can-reduce-worry-in-retirement

1. Don't give in to knee-jerk reactions

Turn off the mainstream media financial news programs and random Google searches. They are meant to stoke fear because fear gets viewers and readers. If you listen long enough or read lots of negative financial news, there's a greater chance that you'll end up making an ill-advised, poorly timed decision about your investments. Instead, let the curiosity that media sparks lead you to search out personalized advice.

2. Differentiate your money between short-term and long-term

People tend to treat all of their money the same. The financial industry sets it up that way in how it trains advisers. For example, some advisers will tell people that if they have $1 million, they can withdraw a certain percentage of that money every year and be fine. But that approach leads retirees to think that it's all one pot of money that works just the same, regardless of what type of account they have used for their savings and how the account is invested.

This creates an incomplete picture because, in reality, they will use some money in the short term and some in the long term. For starters, simply by separating the money into those two time frames can help craft a smarter investment and income-distribution strategy.

3. Shore up your income streams

The transition from work to retirement is understandably uncomfortable. Before retirement, you got a steady paycheck from work, but in retirement, you want your money to do the paycheck work so you can go play. Shoring up retirement income streams gives retirees the comfort of knowing they have a certain amount coming in every month and every quarter. That security can change their whole emotional outlook in retirement. It can be the key to having more confidence to do the things they want to do.

It could be helpful to think differently about a retirement income stream. Instead of thinking about it as a percentage of withdrawal from accounts, consider dedicating resources over different periods of time.

For instance, you could have a segment of assets for use in the near term that are not dependent on the stock market, such as cash-like instruments that work similar to a CD, money market fund, or bond. Stock volatility gets discussed about every night on the news and can lead retirees to emotionally respond to their investments and income in line with the ups and downs. If you have income streams separate from the stock market, you are not beholden to market whipsaws.

4. Invest in quality companies for the long term

Because of inflation, longevity, expenses and all the things you want to do in retirement, your money needs to grow over the long term. An enjoyable retirement depends largely on realizing steady growth from investments; therefore, retirees should be invested in some amount of equities.

Investing in quality companies can build investor confidence in retirement because the investor knows what they own. Time has shown that the valid and sustainable investment approach can be to focus on businesses with a sustainable competitive advantage, solid management, fair value for the price and a long-proven track record of navigating economic cycles.

5. Focus on being tax-efficient

Which asset “bucket” you draw money from and the potential tax implications of when you take it to meet retirement income needs should be factored in to your overall retirement plan. Being tax-efficient could make a big difference in your usable dollars. In fact, how much money you’re able to use after taxes could matter more in retirement than how much money you have or how much it grows.

6. Let integrated planning help you make sound decisions

A solid investment strategy is about more than what is in your portfolio and its percentage return; it must be integrated into your overall income, investing and tax retirement plan. This is where the additional value of an adviser can be realized. Most advisers don't do integrated planning and, therefore, tend to miss opportunities to maximize income withdrawals, investing efficiency and tax minimization.

The tendency of advisers is to sell a product and simply gather assets to manage a portfolio, leading many to conclude that a portfolio balance or investment prospectus is a plan. The characterization of a product, whether it’s life insurance, annuities, a mutual fund or individual stock holdings, collectively does not constitute a plan. An integrated plan looks at five essential dimensions of retirement design: income, investing, taxes, protection and legacy. It’s one thing to just talk about planning and a completely another thing to have integrated planning that weaves all the pieces together.

When the paycheck from work is gone, your portfolio needs to take over the work for you in retirement. It’s worth it to review your investments at regular intervals to make sure you are taking advantage of the income, investing and tax opportunities that might be available to you.

https://www.investopedia.com/emergency-proof-your-finances-4800551

You never know when an emergency will strike, so it's best to have a plan to get you through a crisis.

Because of the normal bust and boom cycles of the economy, there will always be downturns.

To prepare, save an emergency fund, make sure your insurance is adequate, create a budget, and pay down debt.

Designate a financial and medical power of attorney and create a will.

Additional Tips and Suggestions

Backup your computer – Disconnect the drive from your computer when not in use to protect from viruses and power surges.

Keep important information in a redundant manner:

Use a secure cloud account and a Flash Drive kept off site or in a fireproof safe

FidSafe – Fidelity's free document storage of birth certificates, passports, drivers' licenses, insurance policies, etc. offering Legacy Planning, help for the Unexpected and Financial Planning assistance. https://www.fidsafe.com/about-fidsafe/

Password Manager – Remember separate logins and passwords for all accounts

Set up a Finance and Personal Information Only e-mail account

Set up another "Subscription" e-mail account for news, shopping notices, daily briefings, etc.

High Yield Savings

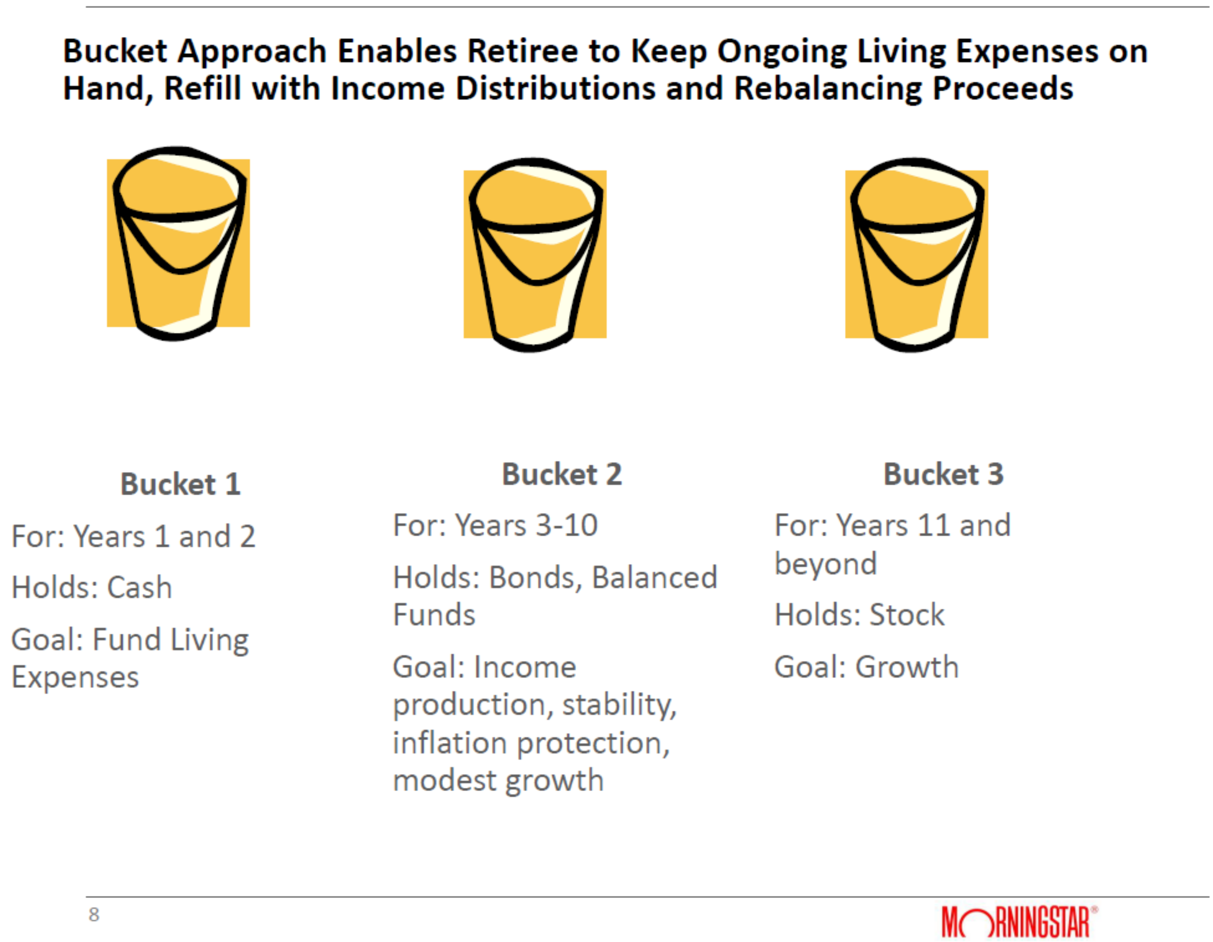
AAII/Discover https://www.discover.com/online-banking/aaii/

citi Accelerate https://banking.citi.com/cbol/high-yield/savings/

American Express https://www.americanexpress.com/en-us/banking/online-savings/account/

US Treasury Direct https://www.treasurydirect.gov/

Marcus (Goldman Sachs) High Yield CDs https://www.marcus.com/us/en/savings/high-yield-cds11



Christine Benz of Morningstar writes about research on the Bucket Approach to Asset Allocation. She is a frequent presenter at AAII Investor Conferences.   Excerpt is from the 2018 AAII-IC

https://www.morningstar.com/articles/840177/

Advantages of a Bucket Approach:

➢Gets retirees off of the "income only" bandwagon; cash flows can come from income or rebalancing
➢Psychological benefit: Cash provides a buffer in volatile markets
➢Uses probability of earning a positive return over a given time horizon to drive allocations to asset classes
➢Helps retirees "back into" a situation--appropriate asset allocation
➢Discrete buckets make it easy to spot rebalancing opportunities
➢Can be customized based on retirees' own investment preferences
  ➢Individual stocks
  ➢Actively managed mutual funds
  ➢Index funds/ETFs

Disadvantages

➢Won't ensure there won't be a shortfall
➢Not "set it and forget it"; requires maintenance
➢Relies on a well--thought--out system for refilling bucket 1/rebalancing
➢Cash is a drag in upward --trending market environments
➢Can get complicated across multiple accounts:
  ➢Taxable
  ➢Tax--deferred
  ➢Roth
  ➢Two spouses'

What the Approach Doesn't Entail

➢Constantly moving money from bucket 3 to 2 and 2 to 1
  ➢It's not always a good time to move money from stocks
  ➢Plus, it's too much work!
➢Spending "through" the buckets (cash, then bonds, then stocks)
  ➢Would leave retiree with a big bucket of stocks late in life; may not be an opportune time to tap