SOUND **INCOME** STRATEGIES, LLC

*The secret to a great retirement is our middle name*

# Are Your Allocations Right for Social Security?

***Inside:***

- **How to avoid making one of the most devastating mistakes retirees can make**
- **How to determine if your allocations are right for Social Security**
- **How to establish a renewable stream of income that you can't outlive**

# Social Security is Not Enough to Survive on During Retirement

## *Are Your Savings and Investment Vehicles Capable of Providing Income You Can't Outlive?*

By David Scranton, CLU, ChFC, CFP®, CFA, MSFS

Even if you've determined the best time and method for taking your Social Security benefits based on your age, objectives, and lifelong earnings, it won't matter much unless you properly coordinate your benefits with your overall retirement income plan.

Most agree that Social Security is not enough to live on in retirement and that it must be supplemented with other sources of income. Therefore, it's essential to make sure your other savings and investment vehicles are as reliable as Social Security and capable of providing income you can't outlive.

Spending down on principal in retirement has never been a smart strategy, but today, it's more of a slippery slope than ever before, especially in the early years of retirement. That's because average life expectancy rates are higher than they've ever been, meaning most people will need to plan for 30 years or more of retirement.

To understand the potential danger of spending down on principal, let's consider a 30-year retirement like a 30-year mortgage in reverse. When you first start making mortgage payments, you're not paying back much principal at all.

Instead, you're primarily paying interest and only a small amount of principal. As the years go on and the balance gets paid down, you pay a little less interest and a little more principal. The process continues until, after 30 years, your mortgage is paid off.

Now, let's imagine the same process in reverse. Take a pool of savings worth $1M, generating 5 percent interest per year — i.e. $50,000. If you take even just a little bit more than the $50,000 each year, only a small amount of your original principal, your $1M in savings will be depleted within 30 years in much the same way that a mortgage is paid off.

## What Are Your Savings and Investment Options for Generating Income?

So, with that in mind, what are your savings and investment options for generating income through interest and dividends to supplement Social Security? Well, there's the bank, but with certificates of deposit earning right around 2% annual interest depending on the term, that doesn't make for a substantial source of income.

Even with $1 million in the bank, 2% translates to just $20,000 per year. So, if banks and CDs aren't a practical option right now, even if you have $1 million, what about stock dividends?

Unfortunately, the math is very similar. Even if you have $1 million in a stock or stock mutual fund portfolio today, with an average dividend of just 2%, you're still only getting $20,000 in annual income, unless you are willing to dip into your principal balance, which can be a potentially disastrous decision when it comes to investing for retirement.

## One of the Most Common and Catastrophic Mistakes You Can Make

To illustrate this point, let's consider another scenario. Let's say you've decided to delay taking your Social Security benefits until the age of 70 in order to receive a higher amount, but you decide you're still going to retire at age 62.

In this case, you not only have to consider how to supplement your Social Security income once it kicks in, but you also have to determine how you're going to fill that eight-year "income gap" until Social Security does kick in.

If you decide to leave your $1 million in the bank at 2% interest, you would earn $20,000 annually in interest. During these 8 years, you would probably have to withdraw an additional $20,000 per year to cover your living expenses, dropping your nest egg down to $840,000.

Taking it a step further, you could decide to leave your $1 million under a mattress earning 0%, in which case your portfolio would only be worth $680,000 by the time you reach the age of 70, assuming a $40,000 withdrawal per year for eight years.

Now, let's say you decide to leave your $1 million in stocks or stock mutual funds for those eight years and another major market drop occurs similar to the two that have taken place since the year 2000. The first, from 2000 to 2002, the market experienced a 50% drop, and it took years to get back to its previous highs. Then from 2007 to 2009, the market dropped almost 60% and took just about the same amount of years to recover.

If you're a 62-year-old retiree taking assets for eight years and you happen to get caught in

the next seven-year downdraft, it means that each year the market drops, you'll end up selling more shares of your stock or stock mutual fund to get your same withdrawal.

This means that even when the market bounces back within seven years or so, by the time you hit age 70, you still won't have come close to earning all of your original principal back. You might actually only have between $300,000 or $400,000 left at the end of your eight-year waiting period. You will have ultimately cannibalized your nest egg worse than if you had put it in the bank or just left it under your mattress.

## A Potentially Devastating Mistake

This kind of cannibalizing of principal is actually one of the most common mistakes that retirees and people close to retirement can make: the error of reverse dollar-cost averaging. Most people know what dollar-cost averaging is and have used it wisely in the course of saving over the years.

The purpose of dollar-cost averaging is to get the average cost or purchase price down to help you buy low and sell high, which is the cornerstone principle of smart investing.

For example, if you were to set out to invest $100 each month in a mutual fund and the first month, the fund was worth $10 a share, you would buy ten shares. Now, let's say the market had a horrible month and the following month, each share of the fund was only worth $5 per share. Well, if you had stuck with your plan, you'd have to buy 20 shares to get $100 worth.

After the second month, your average cost per share would seem to be $7.50, but it would actually be lower. That's because you bought twice as many shares at $5, and half as many shares at $10. Through dollar-cost averaging, you were able to get your average cost per share down to about $6.65.

This strategy works well when you are in the contribution stage of retirement investing. The problem arises when you reach the point where you're not saving into your fund anymore, and you start drawing funds from your principal balance to satisfy RMDs. The same principles apply but in the opposite direction. You are now **reverse** dollar-cost averaging.

Taking the same example, let's say that in the first month, you liquidate $100 and you sell 10 shares. In the second month, the fund's price per share drops in half. Now, to withdraw your $100, you have to sell twice as many shares.

So, now what's your average sales price per share? Again, the math is the same: now instead

of taking your *purchase price* down from $7.50 to $6.65, you've taken your **sales price** and pushed it down. You've been forced, by the need for income, to sell low.

## Should You Have Any Money in the Stock Market Once You've Retired?

Dollar-cost averaging is one of those things that works great in one direction and is horrible in the opposite direction. While dollar- cost averaging is a great strategy for young savers, **reverse** dollar-cost averaging is one of the most cancerous strategies you could embark on.

If a 2% dividend doesn't yield enough income to supplement your Social Security or allow you to fill an income gap, then you may need to question whether you should have a significant allocation in the stock market during retirement.

In fact, because it's so difficult today to earn any reasonable amount of dividend on an average stock portfolio, you may want to take it a step further and consider the question: should you have any money in the stock market at all once you've retired?

This may seem like a radical question based on what most of the experts and textbooks have always said: "Everyone needs to have some money in the stock market as a hedge against inflation."

The unfortunate reality is that the stock market has never really been, on average, a very reliable inflation hedge. In the course of stock market history, there have been long periods when it's been a decent inflation hedge, but even longer periods when it hasn't.

Historically speaking, there are certain periods when an investor can stay invested in the stock market and generate income from fairly predictable gains and capital appreciation, but there are also times when that income has to come out of principal.

## The Universe of Income-Generating Options

As the chart below indicates, these periods when income has had to come out of principal have occurred in a somewhat predictable pattern throughout history. So much so that they need to be understood and considered as part of the process for determining whether your allocations are right for maximizing your Social Security benefits.


*Source: Stockcharts.com*

## Contact a Financial Advisor Who's a Specialist in Non-Stock Market Income-Generating Alternatives

Getting started is as easy as contacting a qualified financial advisor who specializes in handling the assets of those who were born in or before 1966—those who we refer to as "The Income Generation."

This financial advisor should be a specialist in the universe of non-stock market income-generating alternatives. These are conservative or moderately conservative instruments designed to generate consistent income through interest and dividends—generally in the 3–7 percent range—and with substantially less risk than aggressive stock market-based approaches.

## Right Now is a Critical Time for Building and Preserving Your Nest Egg

If you were born in or before 1966, you've lived through the greatest stock market in history as well as some of the biggest declines the market has seen. You've also learned that good times don't always last.

Sound Income Strategies' office in Fort Lauderdale is located a few miles from the Atlantic

Ocean. Our office sits on the top floor of an unassuming building with a view of the blue waters of the Atlantic off in the distance.

Port Everglades, one of the world's most active shipping and cruising seaports, opens out to the Atlantic just a few miles south of us. On clear days, large ships are visible on the horizon as they line up and wait to enter the port.

It's interesting that the captains of these large ships have been able to safely navigate their ships through thousands of miles of sometimes treacherous waters only to hand over control of their ships to a Harbor Pilot for those last few critical miles into the harbor.

The Harbor Pilot is a boat captain who is an expert in the specific harbor from which they work. It's their job to gain experience and to know the specific dangers of their home port.

Because the last few miles are filled with dangers that are virtually invisible to the untrained eye, the ship's captain brings the Harbor Pilot onboard and hands over control of the ship to this specialist. Bringing a Harbor Pilot aboard who is familiar with the hidden dangers that lie ahead allows each ship to reach the harbor safely with their valuable cargo intact.

It's similar for anyone who is in or near retirement. So far, you've managed to safely navigate your portfolio through decades of uncertain markets. Now, with so much on the line, it's time to bring an expert aboard who is very familiar with the risks that lie ahead.

## Financial Advisors Who Don't Specialize in The Income Generation May Not Have the Skills to Ensure Safe Passage into Retirement

Although Sound Income Strategies works with a wide range of clients nationwide, we specialize in helping those who are in or near retirement. We have top-tier income specialists who are experienced at investing with methods that maximize income and growth while minimizing risk.

If you were born in 1966 or earlier, visit soundincomestrategies.com or give us a call at (888) 492-0505 to find a local income specialist registered with Sound Income Strategies who can help reduce your exposure to stock market risk and help you generate reliable streams of income you can count on well into retirement.

# About Sound Income Strategies

Our firm specializes in developing workable retirement strategies for The Income Generation, those born in 1966 or earlier. Our founder, David J. Scranton, has gained a level of notoriety during his 30 years in the industry as an advisor who is particularly protective of his clients' assets. For the past 20 years, he has specialized in the universe of income-generating savings and investment strategies.

Until the disruptive and volatile markets that accelerated in 2014, our proprietary way of trading fixed-income securities had been largely kept secret. Prior to 2014, fixed-income markets had provided ample returns for those with assets in this sector. But, as Janet Yellen started to announce the Fed's intent to raise rates, it made it clear that this period of "easy pickings" for fixed-income investors was coming to an end.

Investors without the proper background would need to look to active managers who specialize in income investments to unearth the best opportunities. It was at this time that David J. Scranton decided the time was right to share our methods with those in The Income Generation.

Sound Income Strategies is made up of experienced investment-management specialists who actively manage their clients' accounts with the goal of maximizing income and growth opportunities. Although Sound Income Strategies works with a wide range of clients nationwide, we specialize in helping those who are in or near retirement.

Sound Income Strategies maintains a core belief that clients have the right to conservative, yet innovative, financial advice along with counsel and recommendations that are appropriate for their particular income needs, tax situation, estate goals, and level of risk tolerance.

David Scranton believes education is so important that he hosts the TV show *The Income Generation* on Newsmax TV which airs every Sunday at 10:00 AM. The show is broadcast to more than 50 million households every week.

*The Income Generation* isn't just another show about retirement planning or the financial markets. It's *the only* show that tackles the challenges and concerns unique to hardworking Americans within 15 years of retirement who need to know how best to protect their money and generate income in today's economic climate.

With guests that include some of today's most respected economists and analysts, David J. Scranton cuts through the media hype, debunks popular myths, and exposes the financial planning secrets Wall Street doesn't want you to know.

Visit soundincomestrategies.com to find a local income specialist registered with Sound Income Strategies who can help reduce your exposure to stock market risk and help you generate reliable streams of income you can count on well into retirement.

Sound Income Strategies, LLC
*The secret to a great retirement is our middle name.*

## Other Commissioned Reports You Might Be Interested in:

- The Income Generation Report: Income-Generating Strategies to Help You Avoid the Perils of the Stock Market
- The Case for Fixed Income: Renewable Income Streams to Keep You a Step Ahead of Inflation
- Pre-Think Your Estate Plan: Your Guide to Saving Your Family and Beneficiaries from Unnecessary Grief and Taxes
- Investment Allocations for RMDs: Satisfy IRS Distribution Requirements Without Cannibalizing Your Original Principal