SOUND **INCOME** STRATEGIES, LLC

The secret to a great retirement is our middle name

The Case for Fixed Income

Renewable Income Streams to Keep You a Step Ahead of Inflation

Inside:

- Why now is still a good time to buy and hold bonds
- What if I invest today and rates go up tomorrow?
- How to create a steady stream of income you can count on well into retirement

Renewable Resource *— A natural resource that can replenish itself naturally over time.*

We hear the term "renewable resource" used often when referring to energy—solar, wind, and even tidal energy. Most agree that the practical use of renewable energy is essential for our future well-being.

The same can be said for money, investing, and retirement. By planning ahead, Americans born in or before 1966—The Income Generation—can help to ensure they do not run out of money in their golden years.

By placing a large part of their portfolio in fixed-income securities, members of The Income Generation can establish a renewable source of income they can count on throughout retirement while preserving the value of their original investment.

As life expectancy continues to increase, it becomes imperative for anyone over the age of 50 to establish their own renewable stream of income to cover their living expenses throughout retirement.

If you haven't been able to save enough money to live off of in retirement, this could be the solution you've been waiting for.

By preserving your principal and using it to create a lasting flow of income instead of spending it, you can help to ensure that your money will last for 30 years or more in retirement. As long as your principal is left intact, you'll have an income stream.

Investing in Stocks Has Always Been a Gamble

Throughout adulthood, most of us were conditioned to believe the best way to ensure a better financial future was through stocks. The argument was that stocks always go up in the long-term. And that is true, but stocks also go down. And, if you're within 10 to 15 years from retirement and your portfolio is decimated by a 20%-30% correction, the results could be disastrous.

Investing in stocks has always been a gamble with a similar likelihood of ending in a win or a loss, depending on your timing. It almost seems like every time the stock market increases enough to feel good about your broker statement, the gains quickly evaporate in a gut-wrenching plunge.

Unfortunately, those who are part of The Income Generation—people born in or before 1966—don't have decades to ride out another 20%-30% drop in stock prices to regain the losses to their portfolios. Even if stock prices eventually go back up to where they were, it's not something investors can rely on with any level of certainty.

What If You Like to Count Your Chickens *Before* They Hatch?

There have always been more conservative savers who feel more comfortable knowing exactly what their investments will provide for them in the future. These people like to count their chickens before they've hatched. In this way, they can know what they have to work with and avoid a lot of unnecessary stress.

These conservative savers are interest rate investors who mostly place money in U.S. savings bonds or bank certificates of deposit (CDs). In recent years, the low-interest-rate environment we've seen in CDs and U.S. government bonds has left many missing their income goals.

This is where Sound Income Strategies has become a popular answer to the perplexing question of what to invest in. This is especially true for investors who can't or won't settle for the uncertainty of the stock market but know that earning less than the inflation rate in CDs can turn out to be disastrous to their portfolios and retirement dreams.

The methods used by the experts at Sound Income Strategies involve higher-yielding investments that allow you to count your chickens before they've hatched. They provide sustainable income solutions that won't have you cannibalizing the principal balance of your investments.

Instead, you can place your hard-earned savings in investment vehicles that generate consistent streams of income while guaranteeing the return of your original principal.

The universe of investment-grade income-producing investments is much larger than the stock market and much more diverse than bank deposits or U.S. Treasury bonds. In fact, building a portfolio with securities yielding 5%-6% puts you well ahead of today's inflation rate and close to what the stock market eventually averages without the stress and aggravation that come with the ups and downs of the stock market.

What If I Invest Today and Rates Go Up Tomorrow?

When it comes to fixed-income investing, most people understand that as interest rates go up, bond prices go down. So, if rates go up after they build a fixed-income portfolio, many believe they've made a mistake, but this is not necessarily the case.

Opportunity Cost—The True Cost of Waiting

The Random House Dictionary defines the term *opportunity cost* as the money or other benefits lost when pursuing a particular course of action instead of a mutually exclusive alternative.

When it comes to fixed-income investing, for every day you wait for interest rates to go up, rates must rise much more to make it worth the wait. Take a look at the example below. Here, the market is paying investors 5% for a five-year security. The question most investors ask is: What if rates rise next year?

Imagine that you are holding a 5% security and a year later, your neighbor invests in the same security and gets 6%. Is your neighbor better off? Not necessarily.

What matters here is how much each of you earns. And, in this scenario, after you factor in the interest payments you have already collected during the first year, you would be the one who makes more money because you invested sooner. Your neighbor would actually have to earn 6.25% to make up for lost time.

Waiting is a Gamble

A hypothetical example assuming 0% return in a bank account

5 Years at 5% ($100,000)

Year 1	$5,000
Year 2	$5,000
Year 3	$5,000
Year 4	$5,000
Year 5	$5,000
	$25,000

1st Year at 0% - the rate needed is then 6.25% ($100,000)

Year 1	$0
Year 2	$6,250
Year 3	$6,250
Year 4	$6,250
Year 5	$6,250
	$25,000

In the example above, investment grade securities yield 5% with a five year maturity. If an income investor decided to wait a year because they were guessing rates would rise, they would need a new higher rate to make up for the first year when they weren't earning. The math is very clear. If they sit earning nothing in a bank account, a year from now, rates for a four-year investment will have to be 6.25% in order to earn the same $25,000 after the fifth year.

They are gambling that rates in the next year will go from 5% for a security due in five years to 6.25% for a security due in four years. Do you think rates will move this high in a year?

What Happens If Rates Go Up and I Need My Money Early?

When rates go up, bond prices go down. So, if you buy a five-year security and rates go up, and you wind up selling early because of an unforeseen emergency, will you be worse off?

If you already held your investment for a year or longer, rates would have to go up much faster than usual for you to lose money.

In the example below, you can see that although the market will pay you less than you had originally paid, the interest that has been paid to you more than makes up for the price erosion to your original fixed-income security.

Using the previous example, let's say rates do go up to 6.25% from 5% in one year. And, because of a completely unforeseen circumstance, you need your money in 2 years from when you invested. Are you worse off because rates went up? It might feel that way, but the math helps you understand the actual decision you're making.

Two more hypothetical examples assuming 0% return in a bank account:

5 Years at 5% ($100,000)

Year 1	$5,000
Year 2	$5,000
Year 3	$5[illegible]0
Ye[illegible]4	$5[illegible]0
Yea[illegible]5	$5,000
Sales price	+$96,250
	=$106,250

SOLD

After two years, you decided you needed the money but three-year rates have gone up to 6.25%. Did you make a mistake by investing? The math says you still did the right thing. You will have earned $10,000 in interest income for two years, plus the market will likely pay $96,250 for your investment. The total for you is $106,250 or an average of 3.125% per year, which is better than the 0% from waiting in the bank.

1st Year a 0%, the rate needed is then 6.25% ($100,000)

Year 1	$0
Year 2	$6,250
Year 3	$6[illegible]0
Ye[illegible]4	$6[illegible]
Yea[illegible]5	$6,250
Sales price	+$100,000
	=$106,250

SOLD

Under this scenario, if you needed the money with three years left and rates rose to 6.25%, you would have earned $6,250 in interest income for two years, plus, since the market is at 6.25%, it would pay close to even for your investment or about $100,000. The total to you is $106,250 or an average of 3.125% per year.

The math reveals that what's best isn't always intuitive. Even if rates go up and prices go down, it often doesn't make sense to wait. How much you make in income is what's important.

What Monty Hall has Always Known

In the TV show *Let's Make a Deal,* audience members would dress up and go to the show with the hopes of being selected as a contestant. The host, Monty Hall, would offer contestants a choice of what was behind three curtains.

Behind one curtain would be something expensive like a new car, behind another would be something undesirable like a goat, and then there would be a third useful but not life-changing prize like a new dishwasher.

The math behind Monty Hall's three choices is that it gives contestants a two-out-of-three chance of leaving in better shape than they started. This is very similar to investing in higher-yielding income securities today. It's just another way to look at it.

Similar to Monty Hall's math of probabilities, if you hold bonds, three things can happen: rates can go down (big win for you), rates can go up (you may lose but not necessarily), or rates can stay the same. If rates stay the same, chances are your bond's yield is much higher than the interest rate being offered in a savings or money market account—still a win.

Know, with Greater Certainty, What Your Financial Future Holds

Investing in income-generating securities is similar to lending your money to the largest U.S. companies that pay you regularly scheduled interest. In the case of bonds, at the end of the loan term, they send you the last interest payment along with the return of your original principal. (Based on the solvency of the issuing company)

By owning predominantly income-generating securities, Sounds Income Strategies clients can know what their financial future holds with a greater degree of certainty. Other investment strategies such as common stocks and mutual funds don't offer as much certainty.

The goal for Sound Income Strategies clients is to provide them with consistent income that helps bring a sense of relief. With this, many of our clients become more comfortable making large purchases, helping their kids financially, and going on vacations. We want our clients to enjoy themselves more because they have the luxury of knowing how much they will be earning in the future.

People are having longer lifespans while their money is having a shorter lifespan. It's not sustainable. They need a plan that can keep their savings healthy too. — ***David J. Scranton, CLU, ChFC, CFP®, CFA, MSFS***

Start Using the Same Methods That Institutional Investors Use to Ensure a Steady Stream of Income

Most of our clients experience an immediate sense of comfort when they visit a Sound Income Strategies office. Unlike other Registered Investment Advisory firms, we're not looking to impress our clients with custom-made suits, mahogany walls, or gaudy statues of bronze bulls on our desks.

We prefer to impress our clients by offering the predictable outcomes similar to what institutional investors enjoy. That's why we invest heavily in technology that provides the kind of service and results known mostly at firms worth billions. We've invested in state-of-the-art software and computer programs that scour the databases of hundreds of firms filtering for well-suited investments at institutional pricing levels.

Our team includes portfolio managers who hold the highly esteemed Chartered Financial Analyst designation. They're armed with cutting-edge analytical tools, access to markets, and research capabilities.

Our confidence comes from knowing that what we're doing is right for The Income Generation and others we serve. We're staffed with fixed-income and portfolio specialists who have succeeded at top-tier firms.

The goal is to provide you with a portfolio that is best suited to your individual needs. Our mission and all our actions focus on that goal. We know we best serve our clients by investing in technology and research instead of high-back leather chairs.

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.

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.

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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
- Investment Allocations for RMDs: Satisfy IRS Distribution Requirements Without Cannibalizing Your Original Principal
- Pre-Think Your Estate Plan: Your Guide to Saving Your Family from Unnecessary Grief and Taxes
- Are Your Allocations Right for Social Security?