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THE ROAD TO RETIREMENT

OUR MONTHLY GUIDE TO EVERY MILEPOST, JUNCTION,
AND LANDMARK ON YOUR ROAD TO RETIREMENT.



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WHAT'S ON OUR MINDS THIS MONTH

Have you ever seen the movie *"The Princess Bride"*? One of the main characters, an expert swordsman named Inigo Montoya, has spent his life trying to avenge his father's death. But when he finally does so at the end of the film, he realizes that he's not sure where to go next. Then he drops a great line:

"It's very strange. I have been in the revenge business [for] so long, now that it's over, I don't know what to do with the rest of my life."

In other words, after finally getting what he always wanted, what he had always worked for, he thought: *Now what?*

As a financial professional, I've seen many investors ask this same question upon reaching retirement. They have been in the "saving for retirement" business for so long that, now that it's over, they're not sure what to do next. That's why, over the last few issues of *The Road to Retirement*, we've been exploring the question of "Now what?" This month let's look at some of the decisions and activities we should focus on immediately after retirement.

WHAT'S AROUND THE BEND: SHIFTING YOUR ASSET ALLOCATION

One of the things that can change in retirement is a person's asset allocation.

Asset allocation is a strategy that spreads your investments across different "asset classes." The three main classes are equities (stocks), fixed income (bonds), and cash. There are other classes, of course, like commodities and real estate.

The thinking behind asset allocation is that by mixing your investments amongst these different classes, you take on less risk. That's because if one class goes down in value, the other classes may not be affected.

Many people, when they begin saving for retirement, adopt a relatively aggressive form of allocation by investing more heavily in stocks than other assets. Stocks have historically risen higher in value than, say, bonds, so they tend to be a good option for building your nest egg.

But stocks also tend to be more **volatile** than other assets. While the stock market does tend to rise over time, it can experience major dips and swings that can last for months, and which can take years to recover from. That's why many investors adopt an increasingly **conservative** asset allocation as they get older. This means gradually allocating a greater portion of your portfolio to less volatile assets – most commonly fixed income – as you get closer to retirement. The thinking is that by doing this, your retirement savings will be less exposed to extreme volatility, decreasing the risk of a major loss in principal just when you need your principal most. (i.e. in retirement, when you will no longer be living off the income of a regular paycheck.)

QUOTES WE'VE
BEEN THINKING
ABOUT:

**"The secret of
getting ahead
is getting
started."**

– MARK TWAIN

But there's no one-size-fits-all approach to investing, which is why it's critical that you take a close look at your own asset allocation in retirement. Do changes need to be made? Do you need to be more conservative...or are you too conservative already? There are several factors to consider, for instance:

- Do you need to focus more on drawing regular income from your investments in order to meet your daily living expenses?
- Do you need to focus mainly on preserving your principal so you don't outlive your money?
- Do you have important retirement goals for which you still need to grow your money?

The answers to these questions will help determine what your asset allocation should be in retirement - and how long that allocation should last before changing again. So, if you ever need help answering these questions, or in applying the answers to your investment strategy, please don't hesitate to reach out. I would be happy to answer any questions or address any concerns you may have.



WHAT'S OVER THE NEXT HILL: SETTING YOUR WITHDRAWAL STRATEGY



Regardless of your asset allocation, every retiree should have a strategy for when they will withdraw money from their accounts, which accounts they will draw from first, and how much they should withdraw every month, quarter, and year. There are many potential strategies to choose from, and a near-infinite number of ways to customize each strategy for you. Over the last few editions of this newsletter, we've broken down a few of the more common. This month, let's look at:

The Proportional Withdrawal Strategy. If you're like many investors, you may have more than one investment account. For instance, a **taxable** brokerage account, a **tax-deferred** account like a 401(k) or traditional IRA, and a **tax-advantaged** account like a Roth IRA.

Traditionally, many retirees would withdraw from their taxable accounts first, then their tax-deferred accounts, and finally their Roth accounts. (While withdrawals made from a traditional 401(k) or IRA are taxed as ordinary income, qualified withdrawals from a Roth account are tax-free.) The idea here is to let the assets in your tax-deferred and tax-advantaged accounts grow for as long as possible.

The problem with this approach is that it can sometimes lead to a heftier tax bill. In fact, it's not uncommon for a retiree to avoid touching their standard IRA until they must begin making withdrawals at age 73...only to find that they have inadvertently pushed themselves into a higher tax bracket. (This is due to having to pay taxes on the potentially large amount of money they withdrew.)

FUN FINANCIAL FACT

Some specially-trained dogs have such an extraordinary sense of smell that they can actually sniff out the ink used in printed money and differentiate between various currencies. These dogs often have important jobs with the border patrol, the military, and in airports. I don't know about you, but I sure would love to have a canine money-detector by my side!

SOURCE: [WAG!](#) AND [U.S. CUSTOMS AND BORDER PROTECTION.](#)

For this reason, a proportional withdrawal strategy is worth considering. With this approach, you would: first determine how much in total you would need to withdraw each year. Then, you would withdraw a proportionate amount from each account every year, based on their respective percentage of your overall savings. For example, imagine that the value of your taxable accounts represents 30% of your overall savings, your tax-deferred account is 50%, and your Roth equals 20%. Since you need to make \$35,000 in total withdrawals each year, you would withdraw roughly \$10,500 from your taxable account, \$17,500 from your tax-deferred account, and \$7,000 from your Roth. This approach would spread out the tax impact of your withdrawals, and potentially lead to a lower overall tax bill each year.

Now, this strategy requires a lot of thought and calculation, and it's not right for everybody. But if taxes are a major concern for you in retirement, it's certainly an approach worth considering!

Next month, we'll look at a withdrawal strategy that's a little simpler to understand: the guardrails strategy.



WHAT'S ON THE HORIZON: THE IMPORTANCE OF KEEPING ACTIVE

A popular image of retirement is sitting on the beach, sipping mai tais. Equally popular is the idea of lounging in a hammock with a book on your lap, a shade over your face, and a glass of lemonade nearby. But if you find yourself asking “Now what?” at any point in retirement – especially in the beginning, as you adjust to a schedule that doesn’t involve calendars or alarm clocks – then here’s some of the best advice I can give:

Get up and get moving.

Recently, someone shared a study with me from the [National Library of Medicine](#). I’m a financial professional, not a doctor, but there were several passages in the study that are very connected with retirement planning. Allow me to quote from it:

*The global population is aging rapidly. It is estimated that 21% of the population will be aged >60 years by 2050. A major challenge of the growing number of old people is the potential increase in healthcare demands due to age-related chronic diseases and disabilities. **Physical activity has been shown to be crucial for reducing the risk of cardiovascular diseases, diabetes, and some cancers; prevention of falls; and maintenance of independence in the later years of life. Despite these benefits, objectively measured physical activity levels are consistently low in older adults.***

*Retirement has been recognized as a critical turning point in determining physical activity behaviors in old age. **Retirement may therefore present an important ‘window’ for targeting interventions to promote increases in, or maintenance of, overall physical activity levels.** Retirement is a major life transition that is associated with life changes including those involving social networks, income, and time flexibility that may all affect physical activity behaviors.*

As a financial professional, I’ve seen it for myself: My retired clients who have led active lives, who get out of the house, who keep moving, often save a lot of money that might otherwise have gone to paying for medical expenses. Just as importantly, they often seem to enjoy retirement more, too.

For that reason, if the words, “I’m retired – now what?” ever cross your mind, the solution is simple: Go do something active, in whatever way that means to you!

WATCHING THE WEATHER: MARKET CONDITIONS ON THE ROAD TO RETIREMENT (AUG-SEPT)

The markets began the month with a dramatic slide, with the Dow [plunging over 1,000 points on August 5 alone](#). This was largely due to a spike in unemployment, sparking fears that the Federal Reserve has waited too long to cut interest rates. Many investors began wondering if a recession was imminent, and the markets declined as a result.

However, the markets rebounded as the month went on due to renewed excitement that the Fed's first rate cut in years will take place in September. The evidence for a rate cut continued all the way to the end of the month when the latest PCE inflation report came out.

The Personal Consumption Expenditures (PCE) Price Index tracks the changes in the price of goods and services purchased by all consumers in the United States. It's a broader and more comprehensive metric than the more commonly cited Consumer Price Index (CPI), which primarily tracks spending in urban areas. The latest PCE report showed that [inflation was at 2.5% in July](#), unchanged from June. That means prices are continuing to cool at a slow but steady rate. And with inflation drawing ever closer to the Fed's target of 2%, it lends credence to the idea that a small but meaningful rate cut will occur within the next few months.

HERE'S WHAT WE'RE KEEPING AN EYE ON IN SEPTEMBER & BEYOND

Two things: The jobs report, which comes out on September 6, and the Fed's next meeting, which takes place on September 17. The former will give more clues as to the state of our economy; the latter will provide guidance on what to expect with interest rates moving forward. Both will be scrutinized closely by investors.

In the meantime, have a great month!



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