# RETIREMENT INVESTING IN A COVID-19 WORLD

WHAT'S CHANGING & HOW RETIREES CAN STAY ON TRACK IN 2020

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# HOW TO INVEST IN RETIREMENT NOW?

The Covid-19 pandemic brought about some of the biggest changes in our lives and in the markets that we'd seen in decades.

Stocks plunged into a bear market and then rebounded in the following months. Bonds are yielding almost nothing. Unemployment is at levels we haven't seen since the Great Depression, and no one knows for sure how deep the economic ramifications may be.

What do this all changes mean for retirees?

Retirees, like so many people in the Covid-19 pandemic, are having to rethink their plans.

This guide aims to help retirement investors think through some of the critical questions they're facing today and adapt to the rapid changes we're seeing in 2020 so they can continue to have a secure, comfortable life in retirement.

## IN THIS GUIDE

- Should you take less risk?
- What if you retire in a bear market?
- Do the old rules about withdrawals still apply?
- Should you rethink how you generate income?
- 5 FAQS about required minimum distributions (RMDs)
- What's helping retirees move forward?

# RETHINKING RISK

## HOW YOU FEEL ABOUT RISK CHANGES OVER TIME. HOW YOU RESPOND MATTERS.

How you feel about risk changes over time, based on recent market action, and changes in your life. Retirees generally have less of an appetite for risk when they're living off their investments than when they were working.

What should you do when your risk tolerance changes? Should you make a change to your portfolio now or will that put your future goals at risk?

If you've designed and tested your initial asset allocation for your goals in retirement, then it should still be valid and help you reach those goals, and ideally, you should stick with it.

While you may feel like changing your allocation in volatile markets, you are often better off waiting until markets stabilize. Otherwise, you may find yourself selling at the worst possible time—just before a market rebound.

If you aren't sure that you can stay invested through market declines, then consider lightening up on equities.

Make sure you have a plan for when and how you'll get back on track. You don't necessarily want to let short-term moves turn into long-term changes to your allocation.

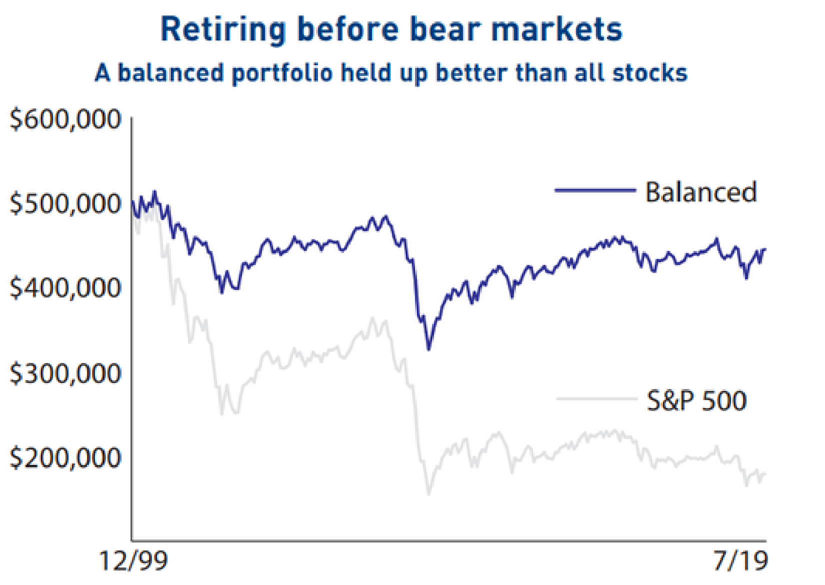
# WHAT IF YOU RETIRE IN A BEAR MARKET?

if you retire in a bear market you typically have a higher risk of running out of money because you're withdrawing from your portfolio while it's losing value.

The example below looked at how you would have fared if you retired on December 31, 1999 with a $500,000 portfolio that was invested 100% in stocks versus a portfolio of 50% stocks and 50% bondsassumes you started taking 4% withdrawals to cover your expenses.

The combination of two bear markets and regular withdrawals took the all-stock portfolio down to less than $200,000 by July 31, 2019.

Bonds held up better than stocks during the market declines, so if you'd retired with a balanced portfolio, you ended up with about $443,000 in your account—more than double the amount of a portfolio that owned only stocks.




Stocks are measured by the S&P 500. Bonds are based on the Bloomberg Barclays Aggregate Bond Index. The 50/50 allocation was rebalanced quarterly. Withdrawals started at 4% in December 31, 1999 and increased 3% annually to account for inflation.

This is just one example of an allocation during a period that was particularly bad for stocks and unusually good for bonds. This example also kept your allocation and your withdrawals consistent regardless of market action. In reality, many retirees make changes along the way, sometimes cutting back on spending in a year following a market loss.

# RETHINKING THE 4% RULE

How much can you withdraw from your portfolio in retirement and still have enough to last your lifetime?

The common rule of thumb is that retirees can withdraw 4% from their accounts each year, adjusted for inflation, with a high probability that their assets will last a lifetime

This 4% rule was first established in the early 1990s, and then confirmed over time by many independent studies, including the respected Trinity study.

It offered retirees a simple formula that allowed retirees to create an annuity-type fixed rate distribution that minimized their risk of running out of money.

However, even the Trinity study acknowledged that the 4% rule was a guideline, and that retirees should expect to adjust their withdrawals at times. This may be one of those times.

# 3 CONCERNS ABOUT THE 4% RULE NOW

**1. Changing market conditions**

The market conditions that led to the success of the 4% rule have become less favorable over time. One of the chief shifts that has occurred in recent years has been interest rates and the corresponding yields on bonds.

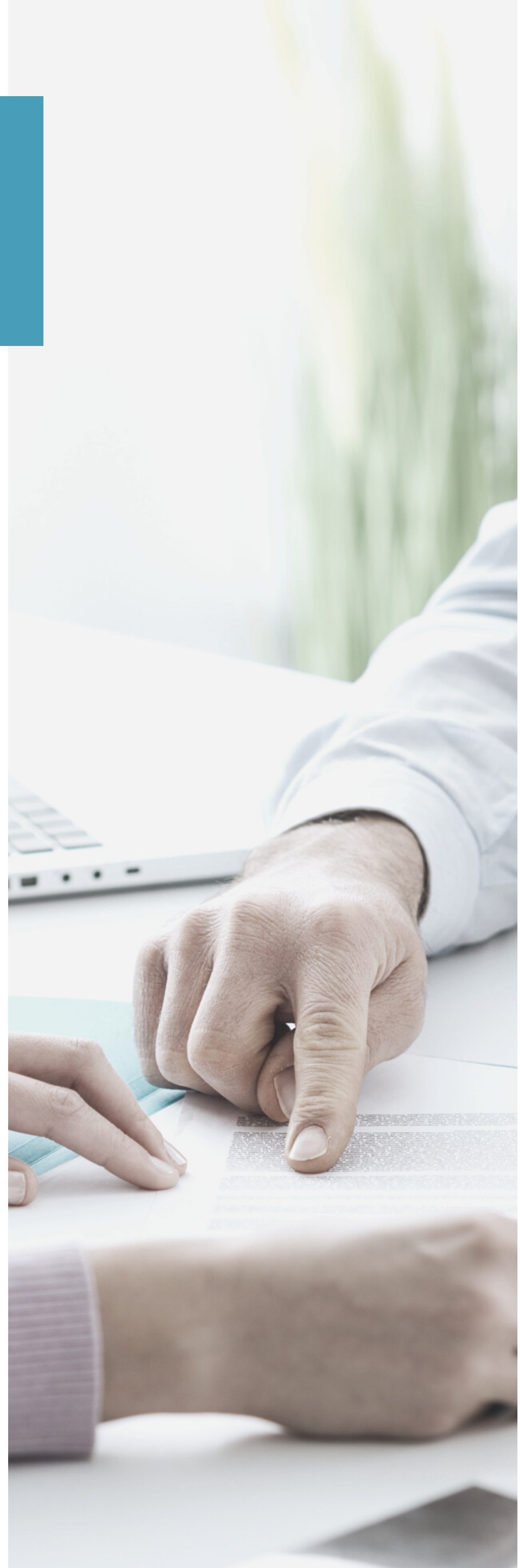
Twenty years ago, the three-month Treasury bill was yielding 6%. Today, however, it yields 0.11%, and the five-year Treasury pays a meager 0.33%. That change will impact expected returns into the future.

**2. Timing of withdrawals**

The 4% rule also doesn't consider when you start taking withdrawals, which can have a major impact on your finances in retirement. Your returns in the early years of retirement are critical to growth of your portfolio. Having a static withdrawal rate works best when there are really strong returns at the onset of retirement. Retirees who start taking withdrawals in a bear market may deplete their portfolios at a faster rate and run a higher risk of running out of money.

**3. Keeping up with life changes**

Static withdrawal rates, like 4%, don't account for the personal health and lifestyle changes or life-changing events that many retirees experience.



# RETHINKING YOUR INCOME APPROACH

## DIVIDENDS MAY NOT PROVIDE THE INCOME YOU NEED

If you've been relying on dividends from stock or bond funds to generate income in retirement, you may need to rethink your income approach. Many companies are cutting or eliminating dividends in the economic downturn of 2020, and bonds are yielding next to nothing.

Dividends can (and do) change over time, so they aren't necessarily a consistent source of income. Funds with strong dividend yields also aren't always the best performers.

A fund can have a solid dividend yield and still have low or even negative returns if its price has declined more than the income it has generated.

Here's a recent example: if you bought iShares High Dividend ETF (HDV) because of its 3.9% yield (according to Morningstar), you would have lost more than -10% for the six months ending May 31, 2020. If you'd bought Polen Growth (POLRX), instead, you'd be up 9.4%—even though POLRX yields 0%.

# A STRATEGY FOR GENERATING INCOME IN 2020

This could be a good time to consider total-return approach to generating income. With this approach, you'll select funds based on total returns—a combination of capital appreciation and income—rather than income alone.

You can then create a steady stream of income by shaving off shares of funds that you've held long term. This way, you'll generate income by realizing long-term capital gains, which are taxed at a lower rate than ordinary dividends.

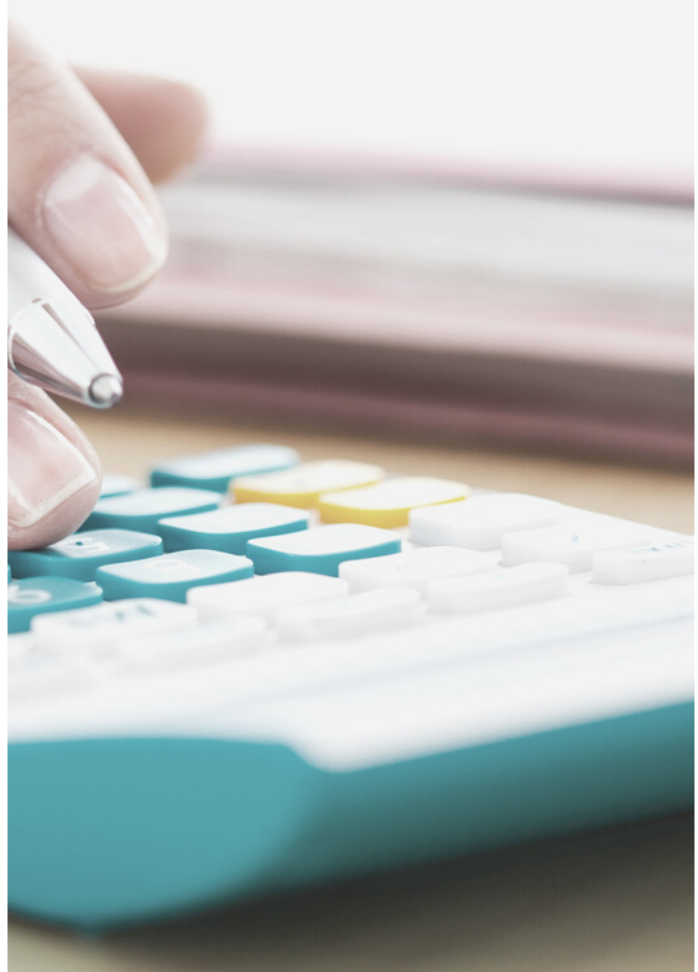
**How to create a steady cash flow from total returns**

You can set up an automatic liquidation and withdrawal plan at your broker, specifying a particular fund of which shares will be sold each month, and having the proceeds sent to you or your bank account.

If you own funds in a taxable account, you'll make sure you're selling shares you've held at least a year. If you've held your funds less than a year, you can still generate income in a tax-sensitive way by selling shares of funds you own at a loss; these losses can be used to offset future gains.

It makes sense to keep six to 18 months of essential cash on hand in money market or similar instruments. You can use this to pay your expenses, and replenish that amount each month or quarter.

**A TOTAL RETURN APPROACH FOCUSES ON A COMBINATION OF CAPITAL APPRECIATION AND INCOME RATHER THAN INCOME ALONE.**



# 5 FAQS ABOUT REQUIRED MINIMUM DISTRIBUTIONS (RMDS) IN 2020

**1. Are RMDs suspended or postponed in 2020?**
RMDs were suspended as part of the CARES Act, the stimulus bill passed in March 2020. You do not have to take two distributions next year for missing this year. The RMD waiver applies to individual and inherited accounts. However, non-spousal beneficiaries are not allowed a 60-day rollover return.

**2. Is this a good thing?**
Yes, assuming you don't need your RMD to cover your living expenses. By not having to take an RMD, you'll save on taxes since every dollar you pull out of a traditional or rollover IRA and other retirement plan is taxable as ordinary income. And you'll have more in your retirement account to grow tax-deferred in future.

**3. What should I do now?**
Update your plans. If you set up an automated withdrawal to meet your RMD each year, you'll want to stop it, unless you need the money for living expenses.
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**4. What if I already took my RMD for 2020? Can I return it?**
You can return the full distributions only if they were made within the last 60 days in what's called a 60-day rollover. (A 60-day rollover can only be done once in 365 days.) If you made a distribution outside the 60-day window, however, you cannot return that amount.

Your advisor can help you return your RMD. If you're managing your own accounts, you'll need to do some paperwork to make the return official. Contact your investment advisor or the financial institution that holds your retirement account (Charles Schwab, Fidelity, etc.).

**5. Can I still make a Qualified Charitable Distribution (QCD)?**
You can still make a QCD of up to $100,000 from your IRA to a qualified charity, essentially giving to charity with pre-tax dollars. However, you may decide to postpone your QCD until 2021 when it will offset your RMDs, and thus lower your taxable income. Talk to your advisor about what's best for you.

# STRATEGIES TO HELP RETIREES MOVE FORWARD

### ACTIVE INVESTING HELPS RETIREES ADAPT TO CHANGING MARKETS

During the bull market years, retirees could buy and hold a few stock funds, perhaps an index ETF, and as long as the market kept going up, they did pretty well. But investing is not that simple the COVID-19 world.

Few investors, particularly retirees, can stick with a buy-and-hold approach during the huge swings in stocks that we saw in the first half of 2020.

Many investors today are turning to active investing strategies, which are are designed to help investors respond to 2020's rapidly changing markets.

An April 2020 survey of Fidelity advisors found that “41% of financial advisors were looking to increase clients’ allocations of active investments,” Barron’s reported on May 8, 2020.

## SUSTAINABLE INVESTING

Sustainable investing looks beyond a company’s financials; it also includes a company's environmental, social, and governance (ESG) risk. The "S" in ESG focuses on how a company protects people, including its employees and clients, and that's become an essential part of investing in 2020.

“Companies that protected their labor forces and supply chains during this year’s stock-market drawdown saw more net inflows from institutional investors and better returns than their industry peers,” according to an April 2020 study by Harvard and State Street cited by the Wall Street Journal on May 12, 2020.

Companies with strong ESG ratings are “the quality companies of the 21st Century, and quality companies tend to hold up better than their lower-quality counterparts in difficult markets,” Morningstar noted April 3, 2020.

# HELPING RETIREES ADAPT TO CHANGING MARKETS

## ADVISORS ARE HELPING RETIREES RETHINK RISK, WITHDRAWALS, INCOME, AND INVESTING IN 2020.

Advisors are helping retirees figure out if they can take less risk with their investments and still have enough money to last their lifetime.

A Morgan Stanley survey found that 86% of high-net-worth investors work with advisors for help allocating their assets.

Advisors are also helping retirees come up with a more dynamic approach to withdrawals and finding new ways to generate income.

As clients return their unwanted RMD back to their IRA accounts, advisors are looking for strategic times to buy back in.

## FINANCIAL PLANNING

Need to retire sooner than later? "The onset of the covid-19 crisis led to a wave of earlier than planned retirements," an April 2020 study of people before the Covid-19 pandemic began and again in the early months of the pandemic found,

Financial planning can help you adjust your retirement plans and determine if you can retire earlier and still keep your same quality of life.

Financial planning can help you answer questions, such as: Should I change my investment strategy? How will I replace my income in retirement? Which accounts should I withdraw from first? How much can I withdraw without putting my future income at risk? Where does social security fit in? What about health-care costs?

# INVEST WITH FUNDX

**HELPING RETIREES BUILD AND PRESERVE WEALTH SINCE 1969**

**Worried about your retirement plans? Not sure if your plans are still valid in the Covid-19 market?**

FundX Investment Group's advisors and financial planners have been helping retirees invest for a secure, comfortable retirement for more than 50 years.

Find out more about how we can help you move forward.

CALL 1-800-323-1510
TO SET UP A TIME TO TALK

$500,000 minimum