The Retirement Income Store®

NEWS

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TheRetirementIncomeStore.com

The Case for ETFs in Retirement Portfolios

A recent Retirement Confidence Survey found that, as a result of the pandemic, nearly a quarter of retirees feel less confident they'll have enough money to enjoy a comfortable retirement. Retirees also report that after their Social Security income, their second most significant source of income is their personal savings.[1] With pensions becoming a thing of the past, the brunt of finding appropriate retirement income solutions has fallen on individuals and their financial advisors. This has left many retirees, and near retirees, searching for the best ways to help preserve their savings, so they can use it as a source of income in retirement.

In recent years, Exchange Traded Funds (ETFs) have become increasingly popular. They are diversified, transparent, cost-effective, tax efficient, and flexible. For those approaching retirement, fixed income and dividend-paying ETFs can provide reliable income, in a cost-efficient manner. If you've been considering investing in ETFs alongside the other investments in your portfolio, here are six potential benefits of doing so:

1. ETFs Can Help You to Diversify

ETFs allow you to invest your money in several companies that make up a fund. Diversification can help to reduce risk of loss, which is particularly important in retirement. Diversifying a portfolio with ETFs provides exposure to several different companies so if a few perform poorly, you could be less likely to be affected. Of course, not all funds provide the same level of diversification, so it is important to work with a qualified financial advisor, so you can understand your options before investing in an ETF.

2. Most ETF Holdings are Transparent

Many ETFs list their fund holdings daily, whereas mutual funds typically disclose their holdings on a quarterly basis. While we aren't suggesting it's necessary to look at the holdings daily, it's always good to know that information is readily available.

3. You Don't Need A Lot of Money to Invest in ETFs

Shares of some ETFs can be purchased with as little as $30—which can make it easier for those who want or need to make smaller monthly allocations. The low initial investment also makes it easier to diversify and invest in multiple ETFs.

4. ETF Fees Are Usually Low

Fees can add up over time. By focusing on lower-cost investment options like ETFs, you can help to maximize your potential returns. ETF expense ratios are typically lower than mutual fund expense ratios.

5. Tax-Efficiency in Retirement

ETFs tend to be more tax-efficient relative to mutual funds. Managing for tax efficiency is especially important in retirement. Controlling taxable income in retirement doesn't just have the potential to lower your tax bills, but it may also reduce the extent to which your Social Security income is taxed and can help reduce susceptibility to Medicare premium surcharges that apply to high-income Medicare enrollees.

6. ETFs Can Provide Reliable Income

Fixed income ETFs and dividend ETFs can be a good way to generate income that can help retirees pay for living expenses.

[1] https://www.ebri.org/docs/default-source/rcs/2021-rcs/2021-rcs-summary-report.pdf?sfvrsn=bd83a2f_2

Sound Income Strategies Has Made Earning Competitive Yields a Bit Easier

Sound Income Strategies is the financial engine that helps drive the income-generating investment strategies of The Retirement Income Store. Sound Income Strategies, LLC is a Registered Investment Advisory Firm that specializes in the active-management of income-generating investments.

Sound Income Strategies recently launched two actively-managed income exchange-traded funds (ETFs):

Sound Equity Income ETF (SDEI) — seeks current income via a dividend yield that's targeted to be at least two times that of the S&P 500 Index. SDEI aims to achieve its objectives by investing in common stock issued by high dividend-paying, mid- and large-capitalization companies.

Sound Enhanced Fixed Income ETF (SDEF) — seeks current income with the opportunity for capital appreciation by investing in investment grade and high yield debt securities, including Bonds, REITs and BDCs.

Please contact your financial advisor to determine if these ETFs are suitable for your portfolio.

Investment Advisory Services offered through Sound Income Strategies, LLC, an SEC Registered Investment Advisory Firm. The Retirement Income Store®, LLC and Sound Income Strategies, LLC are associated entities.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information are in the prospectus. A prospectus may be obtained by calling (833) 916-9056 or viewing here. Please read the prospectus carefully before you invest.

Investing involves risk, including the potential loss of principal. There is no guarantee that the Funds investment strategy will be successful. Shares may trade at a premium or discount to their NAV in the secondary market. The Fund is new and has a limited operating history. The Fund has a limited number of financial institutions that are authorized to purchase and redeem shares directly from the Fund; and there may be a limited number of market makers or other liquidity providers in the marketplace. These and other risks can be found in the prospectus.

The Fund is distributed by Foreside Fund Services, LLC.

Avoid Becoming a Victim of a Scam or Ponzi Scheme

Millions of Americans fall victim to some kind of fraud each year. What is it that causes smart people, who usually make good decisions, to become victims of fraud?

Check out the Fraud: Big Business Report by our sister company, Sound Income Strategies, LLC—to find out what you can do to avoid becoming a victim.

You can also check out the Financial Scams episode of *The Income Generation with David Scranton* on the show's YouTube Channel to learn about the different scams targeting those over the age of 50.

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DAVE'S CORNER

Successful Investing—Simple, but Not Easy

By David J. Scranton, CLU, ChFC, CFP®, CFA®, MSFS, Founder of The Retirement Income Store

Some things, like investing, are simple in concept, but not easy in execution. Unfortunately, most people simply aren't wired to be good investors. We may consider our choices logically, but in the end we tend to make financial decisions emotionally. As a result, most people tend to invest through the rearview mirror.

For example, let's say the stock market hits a record high, so you decide to get in. At that point you've missed out on most of the gains and entered the market closer to the next potential drop. The objective you were seeking – growth – is already in the rearview mirror. On the flipside, when the market starts to slide, you remember that old Wall Street adage of "buy and hold", so you hold. However, the market keeps sliding, so you throw in the towel and get out. Once again, your objective – to protect yourself from a big loss – is in the rearview mirror.

These examples illustrate the psychological challenge at the heart of investing—making decisions emotionally. They also illustrate how the financial markets can sometimes be driven more by emotion than by economics. Even though things don't tend to change as dramatically in the bond market, it can still be driven by emotion.

One issue that can make bond investing simple, but not easy, has to do with the principle that when interest rates go down, bond values go up and vice-versa. Unfortunately, it's not that simple because many factors can affect bond values, not just interest rates. Plus, the fluctuating value of individual bonds can be irrelevant because a bond's face value doesn't change if you hold the bond to maturity. However, that's not as simple as it sounds either, because you need to find bonds with competitive return rates, as well as little risk of default. Doing that takes specialized knowledge.

The same holds true when it comes to investing for income in the stock market. There's a misconception that investing for dividends is easier than investing for growth. On the contrary, dividend investors need to ride a knife's edge between determining which dividend-paying stocks are true values and which ones are value traps— which is neither simple nor easy.

Although successful investing will never be easy, in the end, the best thing you can do to achieve investment success is to identify your retirement goals early on, and work with a qualified advisor to help you achieve them. It all starts there.

Each week on my show *The Income Generation*, we cover topics that are important for those who are retired or nearing retirement. Since every person's situation is different, viewers often have questions. That's why The Retirement Income Store's social media pages include an *Ask Dave* forum – which I'm glad to be able to share with you. Today's questions are both about investing in bonds.

Kenneth from Mississippi asks: *What's the least risky type of bond I can invest in?*

Kenneth, the least risky type of bond, at least in theory, is a U.S. Treasury bond because you don't have any currency fluctuations and it is backed by the U.S. federal government's ability to print money. The problem, of course, is that right now a 10-Year U.S. Treasury bond will pay you right around 1.35%. So, although it is safe, you will not get a lot of return. That's why a lot of people will turn to an Income Specialist because with an Income Specialist, they could get closer to 4%, compared to 1.35%. Although you might take on more risk, I personally believe that it is worth the reward. Thank you for your question, Kenneth.

The next question is from Audrey in Wisconsin. Audrey asks: *What does it mean when a bond is rated triple-A or triple-B? Is one riskier than the other?*

Audrey, that's a great question. As an example, let's think of your FICO score. If you have a FICO score of 800, the bank is going to consider that lending you money is less risky than lending it to someone with a score of 600 or even 700. So, the highest FICO score in the bond world, if you will, is AAA. As you start to get into AA and A, you get into riskier debt, where now it becomes a riskier endeavor for someone buying that bond. Once you hit B-rated bonds it becomes riskier. Finally, C- and D-rated bonds are considered to be the riskiest. Thank you for your question, Audrey.

If you have a retirement-related question you would like answered, be sure to email it to me at: AskDave@TheRetirementIncomeStore.com