The Retirement Income Store®

NEWS

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DECEMBER 2021 MARKET UPDATE

A SOARING STOCK MARKET, UP-AND-DOWN INTEREST RATES, AND RISING INFLATION... WHAT DOES IT ALL MEAN FOR INVESTORS LIKE YOU?

In September, the stock market experienced its first losing month since January. However, by late October, the Dow, S&P 500, and Nasdaq had once again hit new record highs. The rally continued into November, with the Dow topping 36,000 for the first time ever. The market cooled a bit the following week, but not by much.

The economic data that emerged in October was mixed. Third quarter GDP growth came in at just 2%—a big drop from the more than 6% growth achieved in the first two quarters. Meanwhile, supply and labor shortages continued to fuel inflation, which experienced the biggest year-to-year jump since 1990. What's more, long-term interest rates continued to rise for most of October.

Although the Omicron variant of the coronavirus is a cause for concern for the financial markets, investors have also seen hopeful signs such as improving unemployment and consumer confidence numbers. After the early-autumn spike, long-term interest rates leveled off and started falling again.

At its November meeting, the Federal Reserve had indicated it would not start raising short-term rates again until the time is right. The Fed had also stressed it would move cautiously with its plan to ween the economy off the artificial stimulus it's been receiving since the pandemic started. All these factors helped keep the stock market at or near record highs in recent weeks. Then, the Fed surprised the markets when it made a pivot and took a more hawkish tone, which has resulted in increased market volatility.

Could Inflation Play A Significant Role By The Year's End?

Rising prices are an area of worry because if they rise too high, consumers could reduce their spending, which would reduce corporate profits. At the same time, inflation could also force the Fed to raise short-term interest rates sooner than planned. If that happens, it could push up long-term rates and put a crimp in borrowing. And if spending and borrowing drop, it could bring the whole economic recovery to a grinding halt.

So, could more bad inflation news, or some other factor, trigger a fast selloff and a market correction of 10 to 15%? Yes, it could, but that would represent a worst-case scenario. So, what about a best-case scenario? Well, even though GDP growth fell dramatically in the third quarter, it's expected to rebound in the fourth quarter to about 5%. If so, that would give the U.S. economy its strongest year of growth since 1984.

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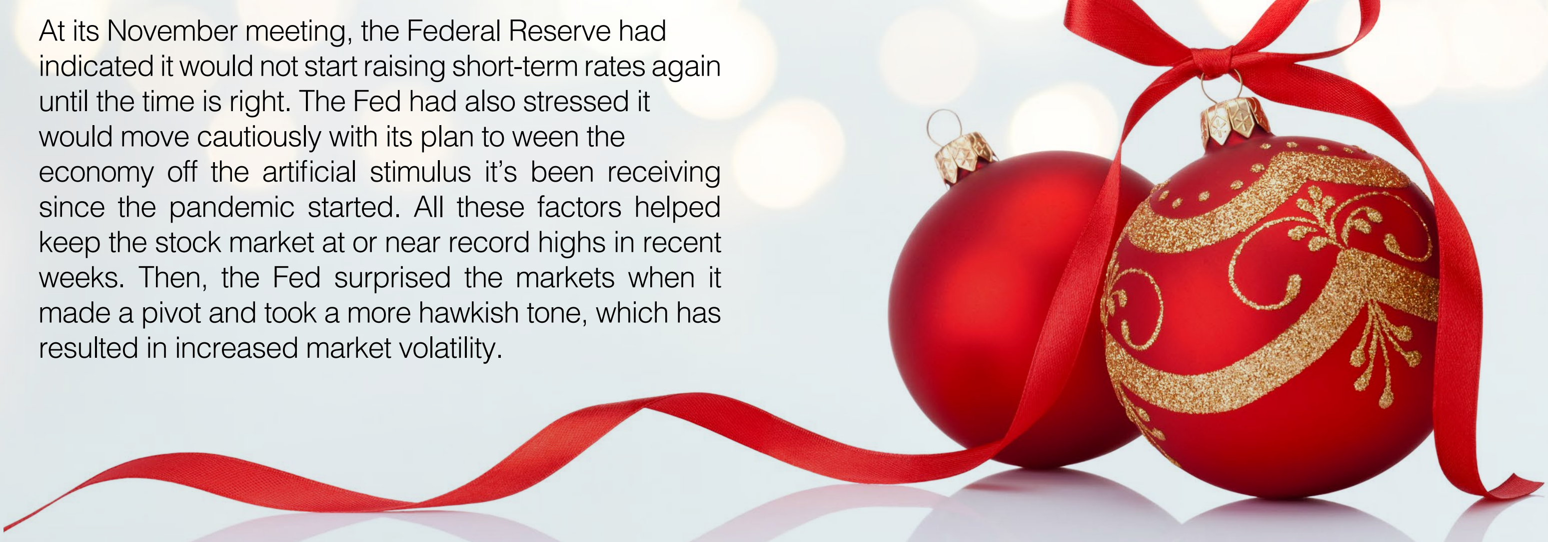

What Might 2022 Bring?

Many analysts expect growth to continue in 2022 as the economy shifts from recovery to expansion. In a best-case scenario, big investors will focus on these forecasts and share the optimistic outlook—which could help the stock market regain its recent record highs or even slightly surpass them. With the S&P 500 already up 26%, that would give Wall Street its third straight year of well-above average growth.

Did the Nearly 40% Drop in March of 2020 Make You a Nervous Wreck?

With all this in mind, we believe that the smartest financial move you can make in the next few weeks is to look at your statements and think back to March of 2020 when the stock market dropped by nearly 40%.[1]

Were you a nervous wreck? Did you think, "I don't ever want to feel this way again," and vow to lower your investment risk, only to forget about it once the markets recovered? If so, remember that feeling now and take action!

If you're within 10 years of retirement, or already retired, and haven't yet shifted your investment focus from growth to income, doing so now could be one of the smartest financial moves you can make.

If you've already shifted your strategic focus from growth to income, talk to your advisor about how you might modify your allocation to lower your risk a bit more. On the other hand, if you're already investing for income and weren't nervous during the coronavirus sell-off, a 10 to 15% market drop could be a good buying opportunity for investors with the right risk tolerance using the right income-based stock strategies.

1.https://www.forbes.com/sites/lizfrazierpeck/2021/02/11/the-coronavirus-crash-of-2020-and-the-investing-lesson-it-taught-us/?sh=28ee3b8a46cf

DAVE'S CORNER

Unraveling The Mysteries Behind Mutual Funds

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

Simply put, mutual funds allow you to pool your money with other investors to purchase a collection of stocks, bonds, or other securities. This makes mutual funds an easy way for investors to diversify their investments, which is important. However, that does not necessarily mean that a mutual fund is the same as a diversified portfolio of individual investments. Here are just a few reasons why.

Mutual fund investors don't actually own the securities in the fund; they only own shares of the fund itself. In an actively managed mutual fund, the decisions to buy and sell holdings are made by one or more fund managers, supported by researchers.

The kind of mutual fund most people think of is a stock mutual fund. Within the stock mutual fund category there are also many subcategories, including fixed income funds, a.k.a. bond funds. These options focus on investments that pay a fixed rate of return in the form of interest income: things like government, corporate, and municipal bonds. Like stock mutual funds, bond funds are often actively managed.

So, does that mean investing for income is a simple matter of switching my allocation to bond funds? Unfortunately, no; that's a common misconception. While bond funds are technically income-based strategies, they're not the same as investing in a diversified portfolio of individual bonds and bond-like instruments.

With a bond fund, you essentially own the stock of a company that owns bonds. As a result, you have no contractual covenants helping to protect your investments – as you do with individual bonds. That means bond funds can carry some of the same risks and drawbacks of any mutual fund.

So what are some of those risks and drawbacks? Let's start with cost. Mutual funds typically have high management fees. Plus, if you buy the mutual fund from an advisor, you'll likely also have to pay a fee or commission to the advisor. You can essentially get double-dipped in fees. And, over the long term, these fees can cut deeply into your rate of return.

High fees are just one potential drawback. Others include underperformance and a lack of transparency. To learn more about the potential risks of investing in mutual funds, check our free report offer on the previous page.

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 we created the *Ask Dave* forum – which I'm glad to be able to share with you. This month, both questions are about mutual funds.

Marianne from Rhode Island asks: "Is it common for an advisor to put you in more than one mutual fund – and how does he or she choose the right funds?"

That's a great question, Marianne. Hopefully, your advisor would place you in more than one fund, because you might have a bond fund, a stock fund, an international fund, and different things you should have in your portfolio. The right asset allocation should be based upon your personal goals, objectives, and risk tolerance.

Unfortunately, many advisors will simply look at past returns and ratings from the different ratings agencies and will try to place you in the highest-rated mutual fund based on past performance. The problem is, that's backward-looking, and those advisors are managing their client's investments by looking in the rear view mirror. That's why you'll see the warning in the prospectus for many investments that reads: "Past performance is not indicative of future results." Thank you for your question, Marianne.

The next question comes to us from Stan in Michigan. Stan asks: "Can you give me an example of a typical mutual fund fee, percentage-wise? How are they hidden?"

Great question, Stan. Some mutual funds could have low fees slightly under 0.5% but they typically average right around 1%, and some can be as high as 2%—especially international funds, which tend to have higher fees. The fees can be hidden because they're often not charged directly to you. Instead, they're factored into the price per share of that fund, which is known as the net asset value (NAV). So, if the NAV would have been $20.37 today, it could fall to $20.35 after the fee is taken out. Thank you for your question, Stan.

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

You can also keep yourself informed by subscribing to the Income Generation's YouTube channel.