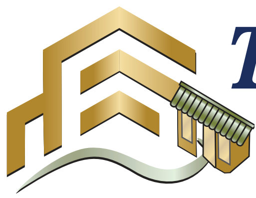

The Retirement Income Store®

NEWS

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TheRetirementIncomeStore.com

TECH INVESTING 101

As bad as the coronavirus has been for some areas of the economy, it's been really good for others. In fact, many tech companies have seen their fortunes rise thanks to the pandemic. And all of this has spurred new interest in — you guessed it — technology investing. But beware. Why? Because the tech sector is notoriously volatile and challenging to navigate, and there's a lot that you need to know.

Let's Talk Tech

Basically, any company that sells a product or service that's heavily dependent upon technology is considered to be in the tech sector, but there are also smaller sectors based upon different kinds of technology involved. For example, there are hardware companies that build everything from servers to Fitbits. Then there are software companies that design things like operating systems and cyber security software. Then there are semiconductor companies and there are telecom companies that provide wireless service, video streaming, cloud computing, and so on. By and large, most areas of the tech sector have gotten a boost from the coronavirus pandemic. Amazon has thrived. Why? Because customers have shifted hard toward e-commerce. Microsoft has also done quite well along with Apple, Intel, Netflix, and AT&T, among others.

Are these boosts permanent? Well, possibly, or new companies could very well come along and make some of these goods and services completely obsolete. In fact, this highlights a major challenge of the technology sector: That it's always in flux. Technology itself is always changing.

With all this in mind, the question becomes: What are considered the hottest tech stocks for 2022? Well, not surprisingly they include several of the companies I've already mentioned. As you might know, five of these companies are so dominant that they're often grouped together as something called FAANG, which stands for Facebook, Amazon, Apple, Netflix, and Google.

As of last August, FAANG accounted for about 19% of the entire S&P 500. So, there are 500 stocks, but five of them are almost one fifth of the index. That just illustrates how dominant these tech companies are. But again, technology is always changing, and today's market leaders can sometimes become yesterday's news.

That's why tech startups are always hot among speculative investors. Again, we're not really focusing on that today, but for those speculative investors, everybody wants to get in on the ground floor of the next Amazon or the next Apple. Of course, it's really hard to identify what the next Amazon or next Apple might be.

With that in mind, how might you or a seasoned investor of any type pick the right tech companies? For the more mature tech companies that produce profits, of course, P/E ratio is a useful metric. For younger companies, you might want to focus on revenue growth. They may not be making profits at all. But ultimately a good tech stock is one that trades at a reasonable valuation relative to its growth prospects.

In many recent years, a lot of the top tech companies have actually implemented dividend policies as a way to reward shareholders and to show how confident they are about future earnings growth. And that's great news because again, if you're an income investor with the right goals and the right risk elements you could take advantage of all of that.

Bottom Line

Although technology can be one of the riskiest sectors of the entire market, it can also be one of the most lucrative. And the good news is that you can continue taking advantage of its potential value while also trying to reduce your risk once you're at, or nearing retirement age, by focusing on those that do pay some dividend.

ANNUITY NEWS

Many people are likely wondering how heightened inflation will affect their retirement goals, including the role of insurance products – like annuities – they already own or are considering. The primary risk of most annuity payouts is inflation. Because of the decades long low inflation environment in the United States, inflation hasn't received much attention in regard to annuities. But when inflation rears its ugly head, the decreased buying power of fixed annuity payments can negatively affect a retiree's standard of living.

Inflation-Indexed Annuities

Also called an inflation-protected annuity, a fixed indexed annuity guarantees a stream of income from the insurance company for the rest of your life. The difference is that the payments increase each year based on the consumer price index or the performance of a stock market index, keeping pace with the inflation rate. Once the income increases, the payment amount cannot decrease from that point forward.

An inflation-indexed annuity is a better choice to hedge against longevity, offering the option to cancel the annuity, regulate liquidity, the ability to earn more moderate interest, principal preservation, and enhancement to help pay for long-term-care expenses.

In combination with Social Security, this guaranteed income might give you the confidence to pursue a slightly more growth-oriented investing approach with your remaining assets. Your advisor can help you understand the various types of annuities and what they can offer, as well as their risks. Annuities are only one part of a larger set of asset allocations that might also include cash, equities, fixed income, and alternative investments such as real estate.

INCOME FOR LIFE: YOUR GUIDE TO ANNUITIES

Many people buy annuities as a way to supplement retirement, providing them with a regular income stream after leaving the workforce. If you're considering buying an annuity, it's important to understand the different types and how they work. In our report, Income for Life: Your Guide to Annuities, we offer helpful information and tips to help assist you in reaching your retirement goals.

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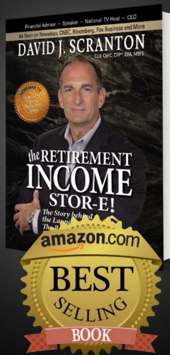
Click here to **refer a friend**, and if they sign up for a 12-month subscription to our newsletter, you'll receive a **FREE** copy of David J. Scranton's Amazon Bestselling book*, *The Retirement Income Stor-E*—which explains how Investing for Income can help you achieve the retirement you deserve.



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Navigating Market Volatility

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

If you don't enjoy roller coasters, you probably did your best to ignore the financial markets in January. Wall Street's ups and downs were as hair-raising as they come. The ride smoothed out a bit by the end of the month – but what were the main drivers of all this volatility?

There were at least four: One, of course, was inflation. The second was the Fed, which announced in December it would start raising short-term interest rates again this year to help deal with inflation. The third issue was long-term interest rates, which rose faster in January than at any time since January of 2020. The fourth issue was corporate earnings.

Although inflation has caused occasional market volatility over the past year, there are at least three reasons it hasn't caused more – so far. One is that investors factor inflation into their projections, and most have been expecting this bout to get worse before it gets better. Two, as a result of three massive economic relief bills and the Fed's quantitative easing efforts, there is still a ton of money flowing through the US economy. And three, both short and long-term interest rates are still relatively low.

The recovery was largely a result of holiday spending and the fact that the Omicron variant wasn't yet a major concern last year.

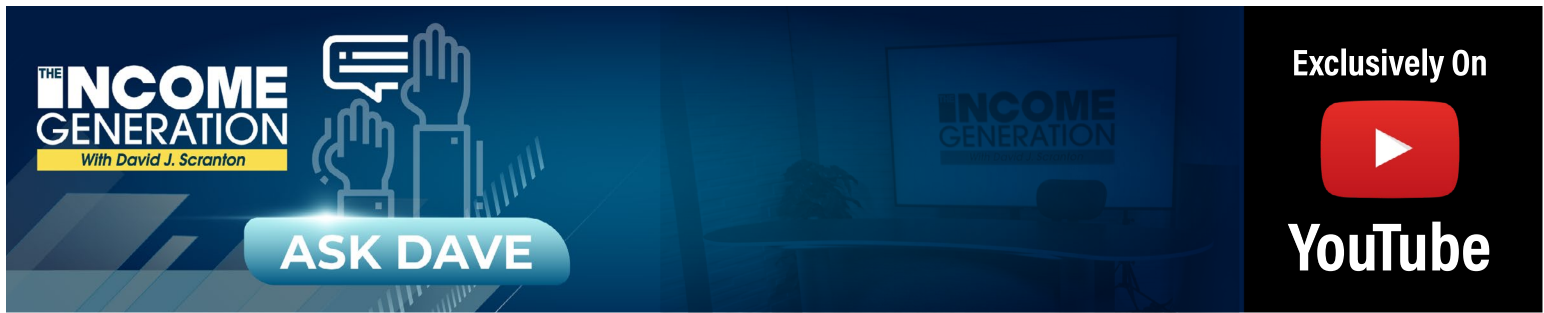
But that changed in January, and so did the interest rate factor.

At its January meeting, the Fed has said it plans to start raising rates in March and may approve up to three more rate hikes this year. What will that mean for long-term rates and the stock market? Well, here are three important things to know about the Fed's plan:

1. Raising short-term rates helps lower inflation by decreasing demand because people tend to spend less when borrowing costs are higher.
2. Decreasing demand also, by its nature, slows economic growth.
3. Raising short-term rates does nothing to address supply shortages, which are half the problem with today's inflation.

What all this means is that timing will be crucial for the Fed. Despite the economy's rebound in the fourth quarter, investors still seem uncertain about how strong it really is. If the Fed's initial rate hike in March coincides with bad first-quarter earnings projection or another big jump in inflation, that could send the markets into a tailspin.

1. https://fredblog.stlouisfed.org/2017/07/healthy-inflation/
2. https://acl.gov/ltc/basic-needs/how-much-care-will-you-need



Each week on my show, The Income Generation, we cover topics that are important to those who are retired or nearing retirement. Since everyone'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.

Our first question comes to us from George S. in California who asks, ***"Why did the dot-com bubble cause the whole market to crash and could something like that happen again?"*** Yes, George, something like that can happen again. However, the dot-com bubble was the result of tech stocks being incredibly overvalued. In fact, their P/E ratios were almost infinity because they had no earnings. Today the tech sector's value is high, but not overvalued as they were during the dot-com bubble. A pullback would have a lesser effect on the market but would have some impact.

Our next question comes from Tessa T. in Delaware who asks, ***"Facebook has had a lot of negative press recently. Do you think that could affect its profits at some point?"*** Thanks for your question, Tessa. Yes, in the short term their profits could lag. However, Facebook is here to stay. It still retains an enormous user base and that will keep businesses that advertise on the platform engaged. In the end, businesses will continue to spend money advertising money where the consumers are, regardless of political views.

THE INCOME GENERATION
With David J. Scranton

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For over 5 years, *The Income Generation with David Scranton* has tackled the financial issues that matter most to those who are retired or nearing retirement. That hasn't changed. What has changed is that we are now posting all of our weekly shows to our YouTube Channel!

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- Watch new episodes each Sunday at 10 AM EST
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