

## FALL MARKET UPDATE

What's behind the recent surge in market volatility?  
Could we see more of it in the coming months?

After hitting new highs in August, Wall Street experienced a jump in market volatility in late September. Then, on September 21st, all three major indexes experienced their worst day in months.

The increased volatility was blamed on fears that China's largest property developer, Evergrande, is at risk of default. The volatility was also attributed to uncertainty over the Federal Reserve Bank's September meeting. The markets rebounded partially following the meeting, with the Fed stating it would start tapering its coronavirus stimulus in the near future.

The Fed also indicated that rising rates are coming, but not before the end of the year. Their timing will remain crucial, and you can expect to see more volatility ahead of its upcoming November meeting. In the meantime, there are other concerns, including:

- Although COVID-19 numbers seem to be on the decline, they remain high in certain areas of the country.
- The labor shortage is starting to impact companies' bottom lines.
- Inflation hit a 30-year high in June.
- The threat of rising long-term interest rates. Although rising rates can create headwinds for income investors, those headwinds can be minimized with an actively managed portfolio of individual, income-generating securities.

Perhaps the biggest concern that few are talking about is the potential for tax increases that might be necessary to fund the Biden Administration's proposed \$6.5 trillion spending plan. Regardless if the new spending is approved or not, tax hikes are most likely inevitable.



The stock market jumped by 20% with Trump's tax cuts, so will it fall by 20% with Biden's tax hikes? The consensus among most analysts is that while 2022 looks good for the markets, the remainder of 2021 will be volatile. Some forecasters say a 20% drop is possible.

The good news is that if you have the right allocation now, a market dip could present buying opportunities. What's the right allocation for you? If you're retired or within 10 years of retirement, it's most likely an allocation designed to help protect your savings so you can use it as source of interest and dividend payments that are not dependent on market performance.

# Managing Taxes, an Important Piece of The Retirement Puzzle

Managing taxes is an important aspect of retirement planning, especially for high-net-worth families. It's important to have a long term strategy when it comes to taxes, yet most of us only think about taxes on a year-by-year basis.

Instead of trying to minimize your tax bill in a given year, make decisions with an eye toward minimizing your total lifetime tax bill.

Let's consider required minimum distributions (RMDs) as an example of why it's important to take a multi-year perspective. Under current rules, withdrawals from tax-deferred accounts must begin at age 72 – starting at just under 4% of the balance of your tax deferred retirement accounts. That percentage increases each year as you get older. This can be a challenge because every dollar that comes out of a tax-deferred account is taxable as ordinary income.

Here are four examples of strategies that can help you address the RMD dilemma:

**Keep Working:** One way to circumvent RMDs is to continue working, even part-time, at a company that offers a 401(k) plan. If that's the case, the funds in that employer-sponsored 401(k) won't be subject to RMDs while you're working there. However, you'll still have to take RMDs from any other qualified retirement accounts.

**Early Withdrawals:** Suppose you retire at age 65 and defer taking your Social Security until 70. Without other forms of income, your tax rate will probably be quite low for the first five years of retirement. In situations like that, it may be worth taking withdrawals from your tax-deferred accounts. Yes, you would drive up your tax rate during that time frame, but the tax rate you pay might be lower than it will be once you start receiving your Social Security income.

**Roth IRA Conversions:** Roth IRA conversions can have many benefits. For example, you could convert some funds that are in a qualified retirement account, like a 401(k), into a Roth IRA ahead of retirement. Although you'll still owe taxes on the amount you convert, you won't have to pay taxes on withdrawals you make in retirement.

**Charitable Gifts:** If you plan on making charitable contributions, you can make your donation (up to \$100,000) directly from a taxable IRA instead of taking the distribution. This is called a qualified charitable contribution. You won't receive a tax deduction for this kind of donation, but it will satisfy your RMD.

The strategies mentioned above may or may not be right for you. Before implementing any of these strategies, we recommend that you work with a qualified financial advisor and tax accountant to create a long-term plan that make sense for you and your situation.



## Are Your Allocations Right for RMDs?



It takes a well-planned strategy to help ensure your investments are allocated properly so that the interest and dividends your investments generate are sufficient to cover IRS-mandated Required Minimum Distributions (RMD). Click [here](#) to read our free report that explain what you need to know to help avoid costly mistakes with your RMDs.



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# DAVE'S CORNER



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

Shifting your investment focus from growth to income in the years just before or during retirement makes sense for most. But how do you know if an income strategy is right for you?

Let's start with the basics. The income model is designed to achieve two objectives that become increasingly important as you near retirement: asset preservation and dependable income.

A recent survey by the Teachers Insurance and Annuity Association found there are three common themes most Americans are looking for in retirement:

1. Freedom from financial worries
2. Flexibility with their lives and their finances.
3. To spend time with family, relax, and travel.

Chances are good that these themes might match up well with what you want from retirement as well. However, to make it happen, you'll need to first identify your specific goals around those themes. Travel where? Relax how?

Once most people take the time to think about it, they realize their goals are purpose-based. In other words, they're investing so they can have the resources to travel, relax, and spend time with family in retirement. Once you've identified your goals, you need to ask yourself how you want to pay for these things. Will you want to liquidate shares of your stock? Probably not.

You'd most likely want to pay for them using your income. Once most people realize this, they understand the benefits of having a financial plan geared toward generating steady income. To know for sure, here are four questions you can ask yourself to help determine if the income model suits you:

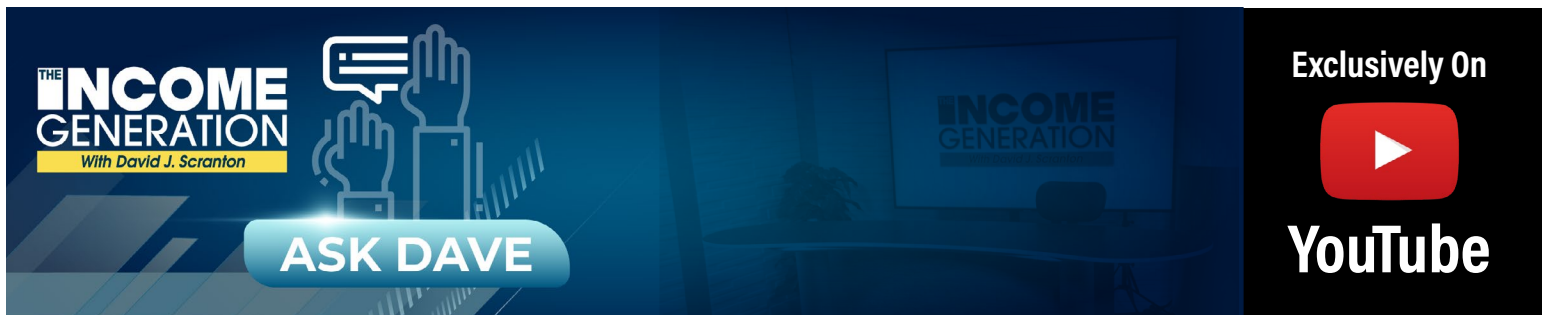
1. Is peace of mind a high priority for your retirement?
2. Is financial flexibility important? Many people worry about having an advisor or financial plan that doesn't adapt to changes in their lives or in the financial markets.
3. Are your goals purpose-based? Are you saving to be able to enjoy a certain quality of life in retirement vs. saving for a big purchase?
4. Have you saved for retirement? Although most people have, many worry they haven't saved enough. The good news is that having the right strategy can be just as important as the amount you've saved.

If you responded "yes" to at least three of these questions, Investing for Income might be right for you. Although there are many issues that could jeopardize your retirement income, a strategy with the built-in flexibility to address those issues can help you enjoy a more financially stress-free retirement.

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Each week on my show, [The Income Generation](#), we cover topics that are important to 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 first question comes to us from Kyle in Maryland. In reference to proposed changes that may result from the SECURE Act 2.0, Kyle asked:

"How do I know my financial advisor stays up to date with all these changes and reforms? Is it required by law?"

Well Kyle, it depends on if your advisor is a fiduciary or not. Technically, it's not required by law either way. However, an advisor who is a fiduciary has to make recommendations that are in your best interest. I would certainly argue that they would be hard-pressed to do that if they do not keep up with current laws and regulations. If you are working with an advisor who is not a fiduciary and is a commission-based salesperson, then that person only has to make recommendations that are suitable for you and may or may

not be in your best interest. Therefore, that person could skate by without staying current. Thanks for your question, Kyle.

Next, Rebecca from Nevada asks: "Do you think there's ever a point after age 50 when it's meaningless to enroll in your company's 401(k) plan?"

Well, Rebecca, the answer varies according to your situation. First of all, if your company offers to match your contributions, then it usually makes sense to invest in the plan and take advantage of the matching. The most common place where it might not make sense after the age of 50 is when you are contributing over the matching amount, and you believe you might be in the same tax bracket or higher when you retire. In that case, it might make more sense to take some of that money and invest it in a Roth IRA.

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

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