Retirement Income Source® Newsletter

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TECH INVESTING IS STILL HOT, BUT IS IT ADVISABLE IN RETIREMENT?

In recent years, certain developments have spurred a major focus on technology investing. First was the coronavirus pandemic, which prompted many new developments in business- and communications-based technologies. The companies behind those developments, which included Amazon, Microsoft, and Google, among others, saw their stock values soar, helping the market as a whole quickly recover from its early-pandemic drop. Soon after, breakthroughs in artificial intelligence (AI) triggered another tech boom, which continues even now, led by the so-called Magnificent 7 tech companies: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. All are heavily into AI chips, cloud computing, and other cutting-edge technologies, and together, they have fueled a huge run-up in the stock market over the last couple of years, especially in the tech-heavy Nasdaq and the S&P 500.

As you may be aware, though, in late January, Nvidia's share price experienced an unprecedented decline of 17% that erased nearly $600 billion in market value. The dramatic sell-off was triggered by Chinese startup DeepSeek's announcement of a new AI model that reportedly achieves similar performance to American models at a much lower cost.[1]

Notoriously Challenging

This development illustrates one of the most important aspects of the tech sector that investors need to understand: technology is always changing, and new developments can trigger market shakeups at any time. This makes the tech sector notoriously volatile and challenging. But does this mean there is no room for tech investing once you're in or nearing retirement and need to focus more on protecting your assets and generating income? Before we answer that, let's cover some basics about tech investing.

In essence, any company that sells a product or service is heavily dependent on technology is in the tech sector. But there are also smaller sectors based on the kinds of technology involved. For instance, there are hardware companies that build everything from computer servers to fitness trackers. Then there are the software companies that design things like operating systems and cybersecurity software. There are the semiconductor companies, and there are the telecom companies that provide wireless service, video streaming, and cloud computing.

What makes tech investing so tricky is the same thing that makes all investing tricky: Your goal is to buy low and sell high. But, often, by the time a tech company is successful enough for you to easily recognize its value, its stock price is already high, so you've missed out. That's why tech startups are always hot among speculative investors. Everybody wants to get in on the ground floor of the next Apple or Amazon.

All About Growth

With that in mind, how might a skillful investor pick the right tech companies? Well, for mature tech companies that produce profits, the price-to-earnings is a useful metric. For younger companies, revenue growth is a better gauge. Ultimately, a good tech stock trades at a reasonable valuation relative to its growth prospects. If you expect earnings to skyrocket in the coming years, paying a high price for the stock can make sense. But if you're wrong about those growth prospects, it may turn out to be a bad investment. In other words, it's all about growth.

Therefore, when you're in your 30s and 40s and still in the growth and accumulation stage of retirement planning, investing for capital appreciation in tech stocks can make some sense – so long as your investments overall are diversified, and even diversified within the tech sector itself. Then, even if your investment leads to a big loss, you won't lose everything, and you're still young, so you have plenty of time to rebuild your nest egg before you'll need it to start generating retirement income.

But as you get older, you lose that luxury. Once you're within ten years of retirement or already retired, a big loss could mean you won't have enough income to meet your needs and goals. That's why it makes sense for most investors who want to stay in the stock market as they approach or enter retirement to switch their focus from growth stocks to high-dividend value stocks. The problem there, as far as tech stocks are concerned, is that while some tech leaders have implemented dividend policies in recent years, most tech companies still don't pay dividends.

Naturally, this doesn't mean you can't continue to invest in tech once you're in or nearing retirement if you really want to. But the reality is, it's best to do so only if you're otherwise sure you have a broader strategy in place that will meet your retirement income needs and goals and is right for your risk tolerance. The bottom line with any kind of tech investing once you're in or nearing retirement age is: know the risks and be careful!

1. https://www.ig.com/en/news-and-trade-ideas/why-nvidia-s-share-price-dropped-17--after-deepseek-news-250128

NOT ALL YOUR RETIREMENT INCOME NEEDS TO BE PASSIVE: POPULAR JOBS FOR RETIREES

In retirement, it's all about the income. But having an investment strategy that generates reliable passive income isn't the only option. Many people find great satisfaction in continuing to earn an active income in retirement with a part-time job. In addition to the financial benefits, working part-time can also be good for your mental and physical health. Here are some of the most popular jobs for retirees:

1. Consulting

If you have years of experience in a particular industry, you can leverage your knowledge by working as a consultant. This allows you to set your own hours while helping your business solve problems and improve operations.

2. Teaching & Tutoring

Many retired professionals enjoy teaching, whether as a substitute teacher, college adjunct professor, or private tutor. Online tutoring platforms also offer flexible, remote opportunities.

3. Real Estate Agent

Selling real estate offers you a flexible work schedule and the opportunity to interact with people while helping them find their dream homes. Many retirees take courses and become licensed agents.

4. Freelancing

From writing and graphic design to bookkeeping and marketing, freelancing allows retirees to work on their own terms. Websites like Upwork and Fiverr make it easy to find gigs, while new tools in the artificial intelligence (AI) realm can improve your efficiency and productivity as a freelancer.

5. Customer Service Representative

Many companies hire remote customer service agents, making it an attractive option for retirees who prefer to work from home while earning extra income.

6. Seasonal & Gig Jobs

Retirees who want occasional work can explore seasonal jobs like tax preparation or holiday retail. Gig-economy options like pet sitting, rideshare driving, and house sitting are also popular.

7. Nonprofit & Charity Work

Many retirees find purpose in working for nonprofits, whether as part-time employees, board members, or volunteer coordinators. While these roles may not generate extra income, they do provide great opportunities to stay engaged while giving back to your community in a personally rewarding way.

Retirement can be a great time to explore new opportunities, stay social, and generate extra income in a healthy, enjoyable way. Whether you want to work for fun, financial reasons, or to stay active, there are plenty of fulfilling jobs to choose from!

DAVE'S CORNER

KEEP SHORT-TERM VOLATILITY IN PERSPECTIVE, AND AVOID IMPULSIVELY SWITCHING LANES

By David J. Scranton, CFA®, CFP®, ChFC®, CLU®
Founder of Retirement Income Source®

As you know, the financial markets have seen an uptick in volatility since the new presidential administration took over, and that trend is likely to continue. The markets like calmness and certainty, and with a president known for making surprise announcements and decisions, investors are feeling uncertain about what might come next.

While it's always good to keep an eye on this kind of short-term volatility, there is no need to get worked up over it. The last thing you want is to stress out needlessly to a point where you start thinking about making strategic investment changes based on short-term fluctuations rather than on your long-term needs and goals. That's always a mistake. It's important to take a broader view and keep things in the proper perspective. Remember that you shifted your financial strategy from growth to income so you could tolerate volatile periods without having to lose sleep, knowing that your assets were well-protected and your income unaffected.

Now, could the volatility get a lot worse? Could a major market downturn be in store? That's always a possibility, of course, but the reality is that forecasting major market shifts has become increasingly challenging for analysts over the last 15 years or so for a variety of reasons. As you know, one of the things I'm best known for in the financial world is having accurately forecasted both the 2000 market plunge of almost 50% following the bursting of the dot-com bubble and the 2008 crash of nearly 60% triggered by the financial crisis.

My analysis of historical trends and a variety of economic data helped me make those accurate forecasts, but things have changed significantly since then. Factors such as the amount and type

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of data available, the emergence of artificial intelligence tools, and, of course, the increased use of economic stimulus by the Federal Reserve have all made market forecasting much more challenging. Even the issue of which political party is in control and the potential impact of its policies on the economy has gotten more convoluted and difficult to predict.

These facts further underscore why it's so important to keep things in perspective when the markets get choppy and to stay calm and focused on having a financial strategy that is aligned with your goals and right for your risk tolerance. The last thing you want to be is that person who is constantly switching lanes on the highway only to end up at the toll booth exactly where you would have been anyway if you had stayed put. That's not only pointless, but it can also be dangerous.

Each week on my show, Retirement Income Source with David J. Scranton, 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 Retirement Income Source's social media pages include an Ask Dave forum, which I'm glad to be able to share with you.

Our first question on the topic of over-investing in the tech sector comes from Gerald in Connecticut: "Should I sell my Nvidia investments now?"

Dave: Generally, when something has run up several hundred times in as short a time as Nvidia has, you might want to take some winnings off the table. Now, it could run up even higher, but it's important to remember you never lose money by taking your chips off the table too soon. The biggest factor in answering this question is, how are you diversified? The first thing to ask if you are retired or close to it is, how much money should I have in the stock market overall? You need to make sure your equity holdings are an appropriate percentage of your overall liquid assets.

Secondly, of those holdings, make sure your exposure in the tech sector is reasonable. I would say if tech stocks make up nearly or more than 20% of your holdings, that's probably too much. Also, are you diversified within the tech sector itself? How much of your money in tech stocks is in AI chips versus other things, for instance? And of those chip stocks, are they in several chip companies or just Nvidia? So, there are several layers to this when it comes to diversification. Just remember, the tech sector – in general – is a very risky part of the market, so be careful.

Our next question comes from Kevin in Delaware: "I would like to continue to invest a good amount of my money in the stock market in retirement. What's so wrong with that?"

Dave: I don't know enough about you, Kevin, to say whether it's wrong or not, but let's break it down. The first issue is your risk tolerance level, and the truth is you don't know what your risk tolerance is going to be in retirement unless you're already retired. But it's important because you need to know yourself well enough to determine how big a market drop you can stomach before it starts to affect your enjoyment of retirement and your ability to spend income without constantly worrying. That's the emotional, right-brained part of it. How secure do you feel about your investments? The mathematical, left-brained part has to do with what kind of stocks you're in. Are you in high-dividend stocks or just growth stocks? And if you're heavily weighted toward tech stocks, you'll get very little dividend income because few tech companies pay dividends.

So that would be a situation where most of your total return comes from growth, and you can't spend growth. What you can spend is the income generated by the interest and dividends that get paid out. If you have high-dividend stocks, then staying in the stock market might be okay because dividends are sticky. Companies are reluctant to cut them. If we were to have a market drop and a lengthy bear market where stocks are down 30% or even more, most of your dividends will probably stay intact. This means your income will stay intact. You will have staying power, and you can wait for the market to come back.

Remember to look at two things: your emotional risk tolerance level and, more importantly, what kind of stocks you have. Are you taking an income-first, growth-second approach to stocks – which reduces your risk in retirement and better ensures your income – or is it more of a growth-only strategy?

Retirement Income Source®
WITH DAVID J. SCRANTON

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